ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN DECEMBER

The performance of the nation's business in December did little to shake the confidence of the optimists who predict a banner year in 1957, although some signs of weakness led a few to qualify their forecasts. Department store sales, after getting off to a slow start, finished the Christmas season with a rush that carried the seasonally adjusted total for the month approximately to the record reached the previous month. Industrial output, with allowance for time lost during the holidays and for other seasonal factors, probably approximated the level reached in November, which was 47 percent above the 1947-49 average. Steel mills continued to operate at capacity levels.

However, the 590,000 passenger cars produced in December fell considerably short of the volume scheduled by the industry. Sales were also weaker than expected. A rise of nearly 300,000 in inventories from the October low, despite below-normal output in November and December, indicated that deliveries to customers were well below the predicted level. Sales of TV sets were also below expectations, with the result that inventories are the highest in the industry's history.

1956 in Review

For the economy as a whole 1956 was a record year. The gross national product of about $411 billion was 5 percent above 1955, the previous high. A little over half of this represented price increases rather than expansion of real output. Industrial production was up about 3 percent, ranging from 41 to 47 percent above the 1947-49 average after seasonal adjustment, except for the month of the steel strike. Farm income was up 5 percent from the 1955 level, with crop production the third greatest in history. Employment exceeded 66 million in five months of the year, a new high, and unemployment stayed between 2 million and 3 million.

New plant and equipment expenditures amounting to some $35 billion, 22 percent above the previous high of 1955, were a major factor in the boom. The record $44 billion of new construction in part reflected the high level of business investment, as did the 115 million tons of steel produced and the high volume of machine tool shipments. Manufacturers' inventories rose about $5 billion in book value during the year. Retail sales of $192 billion were about 4 percent above the 1955 record level. Government purchases of goods and services ran about $3 billion above the previous year and net foreign investment nearly $2 billion.

Several elements of weakness in the business situation dampened the optimism of some analysts. Physical volume of production was down in some important categories such as automobiles, where output fell from 7.9 million units in 1955 to 5.8 million. Housing starts were off about 200,000 from the 1,300,000 units constructed the previous year. Corporate profits were declining most of the year.

An increase of more than $3 billion in consumer credit helped to raise the total of consumer expenditures by about 4 percent, but price increases averaging 2 percent at retail reduced the real gain to 2 percent. Consumer and other heavy demands for credit brought on the tightest money market in more than two decades. The tight money market reflected in large part government policy designed to restrain the boom, in the hope of keeping it going longer; but more importantly this credit stringency is characteristic of the high financial requirements at the crest of the boom, and it could have been prevented only by a deliberate effort to expand the monetary supply.

Survey of Monetary and Fiscal Policies

A broad survey of Federal Reserve Board monetary and government fiscal policies seems certain to get under way in the near future. Reports indicate that President Eisenhower will recommend to Congress that such an investigation be conducted.

Pressure for a major study in this area has come from several sources. Rep. Wright Patman, Chairman of the Joint Economic Committee, has introduced a resolution in the House calling for an investigation of Federal Reserve policy by the House Banking Committee, and an advisory panel of 27 financial leaders assisting the Senate Banking Committee in a survey of banking statutes has proposed that Congress authorize a bipartisan survey of fiscal and monetary institutions and policies.

These and other proposals for the appointment of an investigatory commission have arisen out of the controversy over the tight money policy of the Federal Reserve System. Some proponents favor restrictions upon the independence of the System; others would like to see its independence reinforced and its control extended over certain other financial institutions. Some contemplate a survey which would cover a variety of other topics, including government lending and taxing policies.

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Assuming Prosperity for Consumers

A review of year-end forecasts indicates that they are almost unanimously based on a common assumption, that activity and incomes will continue to rise. The expert on construction, the auto industry analyst, the farm outlook specialist, and the money and credit forecaster — all tacitly agree on this basis for their own projections. Each rests upon the work of the others, apparently without recognizing that the net result of this procedure can only be what was assumed in the first place.

Nowhere is this practice more common than in projecting consumption expenditures. Some dismiss this subject with the statement that the same trend will prevail in 1957 as in 1956. Others state that with incomes, prices, and population continuing up, consumer expenditures are bound to add another $15 billion or so to gross national product in 1957. But of the three "trends" taken as given, only the last and least important, that is, the population increase, can be considered secure.

Will Consumer Incomes Rise?

The relatively pessimistic forecast given here last month was derived after starting from relatively optimistic assumptions about key factors, more or less in line with the consensus. These were modified in the course of the analysis because they did not stand up when considered in the light of the over-all pattern that developed.

A very important difference in results develops from an analysis in terms of quarterly rather than annual data. Some propositions that look reasonable on an annual basis look different when the movement within the year is considered. Thus, it may not seem unreasonable to assume nonfarm inventory accumulation in 1957 at something like the moderate rate of $2.4 billion experienced in the third quarter of 1956. But the rate in the fourth quarter of 1956 was fully twice as high, and to get down to the lower annual average means a decline all the way to zero by the year end.

Similarly, assuming a continuation of the general advance, an increase of 5 to 10 percent in business capital expenditures for the year as a whole may be considered reasonable. If price increases are allowed for, this means only a small increase in volume over the 1956 average, which is already high enough to provide for a substantial rate of growth in total output. But the first quarter of 1957 is expected to be well above the 1956 average, in real as well as value terms, so that some decline is necessary through the rest of the year to average down from the first quarter. This decline might be almost as rapid as the advance during 1956.

On this basis, the pattern of activity, excluding services, is down, not up; and at this point it is necessary to go back and reconsider. It now appears that the sights have to be lowered on the annual estimates originally adopted for key components, since they were based on expectations of continued advance. This in turn means that the decline within the year will be more rapid. So the whole structure of the initial projection, except for government expenditures, falls apart.

Some forecasters arrive at higher consumer income by projecting "trends" of employment and wage rates upward through 1957. This, however, is merely another way of assuming the answer. Employment in any reasonable pattern of analysis is dependent on the demand for output; there may be some lag effects, but these are relatively unimportant in sustaining the "trend." Hourly wage rates more definitely lag at the turns, so that they may reasonably be projected upward through the early part of 1957 and held high later, in a pattern like that of fiscal 1954. But increases in rates may readily be offset by falling employment and reduced working hours, and they can hardly assure an increase in aggregate income.

Despite higher wage rates, therefore, consumer income may fall rather than advance. If it falls, the upward projections of consumer expenditures are untenable. Rising population would tend to moderate the effects of falling income on expenditures for nondurable goods and services, but the income effects are more important even for these categories, so that the most reasonable projection of such expenditures would be a lagging turn in line with income.

How About Prices?

Part of the upward push in consumer expenditures to current levels has been due to price increases. In fact, practically all of the advance in seasonally adjusted rates of spending from the first to the last quarter of 1956 derived from price changes.

At the moment, the continuing influence of this factor is confined to services. Rates on medical and personal care, reading and recreation, and rents are still advancing. There is, however, nothing inevitable about this movement. There tend to be lag effects — as in the case of wage rates — but these do not ensure ever higher returns to doctors, barbers, theater operators, and landlords.

Commodity prices have generally stopped moving up. Food and other nondurables show comparative stability at high levels. Durables have tended to weaken. Toys and consumer household goods were sacrificed to some extent in Christmas sales; autos, after the big new model push, are beginning to show the effects of discounting. A similar change is apparent in wholesale markets. Some of the leaders in the price upsurge — such as copper, paper, and lumber — are already down or hard put to hold their own. The area of continuing advances has narrowed to such lines as steel, concrete, and machinery.

During most of 1956, in contrast to the early postwar period, business concerns passed on cost increases without restraint. Apparently insatiable demands seemed to justify such action. Now, over an increasing range of

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MANUFACTURING IN ILLINOIS

In Illinois, manufacturing products range over almost the entire list of consumer and industrial goods. The State is the nation's foremost manufacturer of electrical machinery, food products, and fabricated metal products. It is second in the manufacture of nonelectrical machinery and in printing and publishing. In addition, it is important in many other industries, such as furniture, primary metal products, instruments, apparel, and chemicals.

Postwar Industrial Growth

In terms of value added by manufacture — that is, the total value of manufactured products less the cost of materials going into them — Illinois is the nation's fourth leading industrial state. It is surpassed only by New York, Ohio, and Pennsylvania. In 1954 the value added was $9.6 billion, as compared with $6.7 billion for 1947, an increase of 44 percent. During the same period, the number of manufacturing establishments increased from 15,988 to 17,714.

Illinois, with only 7 percent of the nation's total manufacturing labor force, accounts for nearly 9 percent of the nation's total industrial output. In 1955 manufacturing employment exceeded 1.2 million with an annual payroll of $5.9 billion. The 44 percent increase in value added from 1947 to 1954 was accomplished with a 2 percent decrease in manufacturing employment, according to the *Preliminary Report of the 1954 Census of Manufactures.*

As the center of population of the United States, Illinois is the central distributing point for the nation's consumer goods. However, outside of chemicals, paper products, printing and publishing, and rubber products, industrial expansion in Illinois during the past decade has been primarily in the producers' durable goods industries; consumer goods industries have declined or shown little growth. In general, such industries as transportation equipment, instruments, electrical and other machinery, metal products, and primary metals have expanded the most in Illinois since 1947.

Leading Industries

The manufacture of nonelectrical machinery is the most important industry in Illinois, with some 2,400 plants and factories located within the State. Employment has more than doubled since 1939, and the industry currently employs 214,000 workers, over one-sixth of all employees engaged in manufacturing. Value added has increased 51 percent since 1947 and amounted to $1.7 billion in 1954, the highest for any single industry. Construction and farm machinery, metal working, and general industrial machinery are the major types produced.

Next in importance are the electrical machinery and food processing industries. The electrical machinery industry, with a value added of more than $1 billion in 1954, showed an increase of 51 percent over 1947. It has 157,000 employees, the second largest number of workers in Illinois, and more than three times as many as in 1939.

Food processing is second in importance as measured by value added. This amounted to $1.3 billion in 1954, an increase of 29 percent over 1947. Employment, however, has been declining since 1947 when approximately 154,600 persons were employed. The decline, due largely to the dispersion of slaughtering activities to other states by the meat-packing industry, has been partially offset by the growth of soybean processing and animal feeds. Even so, the industry still employs an average of over 139,000 persons, the third largest industrial employment in Illinois.

Other major manufacturing industries, in their order of importance in terms of value added, are fabricated metal products; primary metals; printing and publishing; chemicals; transportation equipment; stone, clay, and glass; instruments; apparel; paper products; and petroleum and coal products.

Distribution of Industry

The greatest amount of industrial expansion in Illinois has taken place within the Chicago Metropolitan Area, but its rate of expansion was a little below the average for the State. Value added by manufacture totaled $6.9 billion in 1954, an increase of nearly 40 percent over 1947. Whereas the number of manufacturing establishments increased from 12,000 to 13,151, the number of employees decreased by nearly 10,000 over the same period.

In addition to Chicago, there are seven other outstanding centers of industry in Illinois. Five have shown large increases in value added by manufacturing from 1947 to 1954: the East St. Louis area, with an increase of 50 percent; Rockford, 68 percent; Rock Island-Moline, 65 percent; LaSalle-Peru-Oglesby, 63 percent; and Springfield, 102 percent. The other two are Peoria-Pekin and Decatur. These eight industrial areas account for 90 percent of the State's industrial employment.

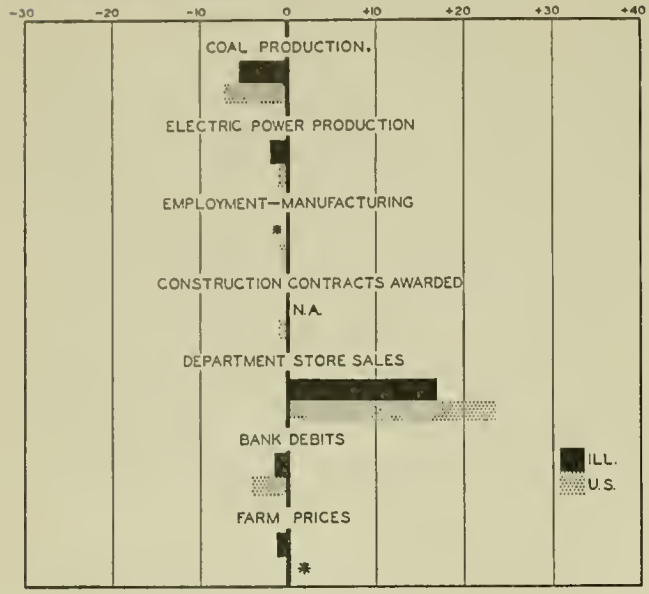
In recent years there has been a decided change in the pattern of industrial development. Though the Chicago area is expanding rapidly, many industries have left the city proper to go into outlying areas in order to find suitable sites and locations. It has been estimated that there are six million square feet of vacant industrial floor space in Chicago. Many new plants have located in outlying areas, principally along railways, waterways, and arterial highways.

There has been a concentration of industrial districts in the suburban areas of larger cities as well as a scattering of small industrial groups and establishments in residential and business areas. Many industries have followed the railways westward to the Rockford area, which has become the most highly industrialized area in the State, with over one-half of its employees engaged in manufacturing industries. Others have gone to the Springfield, East St. Louis, Rock Island-Moline, and other areas which offer attractions in lower wages, better traffic conditions, or community facilities and services.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1956, to November, 1956



N.A. Not available. * No change.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1956 (1947-49 =100)	Percentage Change from Oct. 1956	Percentage Change from Nov. 1955
Electric power[1]	213.4	−2.1	+ 2.6
Coal production[2]	88.7	−5.6	+ 0.8
Employment — manufacturing[3]	108.4	−0.0	− 0.7
Weekly earnings—manufacturing[3]	153.5[a]	−0.4	+ 2.9
Dept. store sales in Chicago[4]	123.0[b]	+7.0	+10.8
Consumer prices in Chicago[5]	121.0	−0.1	+ 1.6
Construction contracts awarded[6]	n.a.	.....	.....
Bank debits[7]	175.6	−1.7	+10.6
Farm prices[8]	78.0	−1.3	+ 9.9
Life insurance sales (ordinary)[9]	269.5	+8.1	+35.0
Petroleum production[10]	130.6	−2.6	+ 5.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] October data; comparisons relate to September, 1956, and October, 1955. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1956	Percentage Change from Oct. 1956	Percentage Change from Nov. 1955
	Annual rate in billion $		
Personal income[1]	333.6[a]	+ 0.3	+ 6.1
Manufacturing[1]			
Sales	345.6[a]	+ 1.8	+ 5.5
Inventories	51.3[a, b]	+ 1.0	+12.3
New construction activity[1]			
Private residential	15.6	− 3.9	− 8.6
Private nonresidential	16.2	− 3.4	+ 8.8
Total public	13.9	−15.9	+11.3
Foreign trade[1]			
Merchandise exports	19.9[c]	+ 9.1	+18.6
Merchandise imports	13.4[c]	+12.8	+10.8
Excess of exports	6.4[c]	+ 1.9	+39.1
Consumer credit outstanding[2]			
Total credit	40.6[b]	+ 1.1	+ 9.5
Installment credit	31.0[b]	+ 0.7	+ 9.7
Business loans[2]	30.4[b]	+ 1.6	+16.9
Cash farm income[3]	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	147[a]	+ 0.7	+ 2.8
Durable manufactures	166[a]	+ 1.2	+ 3.1
Nondurable manufactures	131[a]	+ 0.8	+ 0.8
Minerals	130[a]	+ 0.8	+ 4.0
Manufacturing employment[4]			
Production workers	107	− 0.2	− 1.1
Factory worker earnings[4]			
Average hours worked	102	− 0.2	− 1.5
Average hourly earnings	153	+ 0.5	+ 5.2
Average weekly earnings	155	+ 0.3	+ 3.6
Construction contracts awarded[5]	221	− 1.0	− 6.0
Department store sales[2]	131[a]	+ 7.4	+ 7.4
Consumers' price index[4]	118	+ 0.1	+ 2.4
Wholesale prices[4]			
All commodities	116	+ 0.3	+ 4.2
Farm products	88	− 0.6	+ 4.5
Foods	104	0.0	+ 4.9
Other	124	+ 0.5	+ 4.0
Farm prices[3]			
Received by farmers	86	0.0	+ 3.6
Paid by farmers	116	+ 0.9	+ 3.6
Parity ratio	81[d]	− 1.2	+ 1.3

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dep of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Cor
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for Octobe 1956; comparisons relate to September, 1956, and October, 1955. [d] Base on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1956 Dec. 29	1956 Dec. 22	1956 Dec. 15	1956 Dec. 8	1956 Dec. 1	1955 Dec. 31
Production:						
Bituminous coal (daily avg.) ..... thous. of short tons	1,064	1,863	1,782	1,773	1,823	1,840
Electric power by utilities ..... mil. of kw-hr	11,196	12,227	12,220	12,047	12,075	10,751
Motor vehicles (Wards) ..... number in thous	112	177	183	192	185	119
Petroleum (daily avg.) ..... thous. bbl	7,392	7,376	7,355	7,353	7,133	6,987
Steel ..... 1947-49=100	135	147	146	145	144	134
Freight carloadings ..... thous. of cars	488	698	717	738	752	575
Department store sales ..... 1947-49=100	112	265	260	227	197	88
Commodity prices, wholesale:						
All commodities ..... 1947-49=100	116.3	116.1	116.2	116.0	115.7	111.3
Other than farm products and foods ..... 1947-49=100	124.7	124.7	124.6	124.5	124.2	119.8
22 commodities ..... 1947-49=100	92.6	92.3	93.2	93.5	93.8	89.9
Finance:						
Business loans ..... mil. of dol	31,309	31,266	30,811	30,480	30,407	26,673
Failures, industrial and commercial ..... number	174	214	249	270	254	174

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for December, 1955.

RECENT ECONOMIC CHANGES

Corporate Liquidity Reduced

Corporations were drawing heavily on their liquid assets to finance inventory and capital goods investment during 1956. At the end of the third quarter cash and government security holdings totaled $49.2 billion, down from $52.8 billion on September 30 of 1955 and $56.6 billion at the beginning of 1956. At the same time, current liabilities rose to $106.2 billion from $98.7 billion the year before and $105.2 billion at the beginning of the year. As a result, the ratio of cash and government security holdings to current assets was down to 47 percent, a level comparable with that prevailing in the immediate prewar period. Throughout 1955 the liquidity ratio was close to 55 percent.

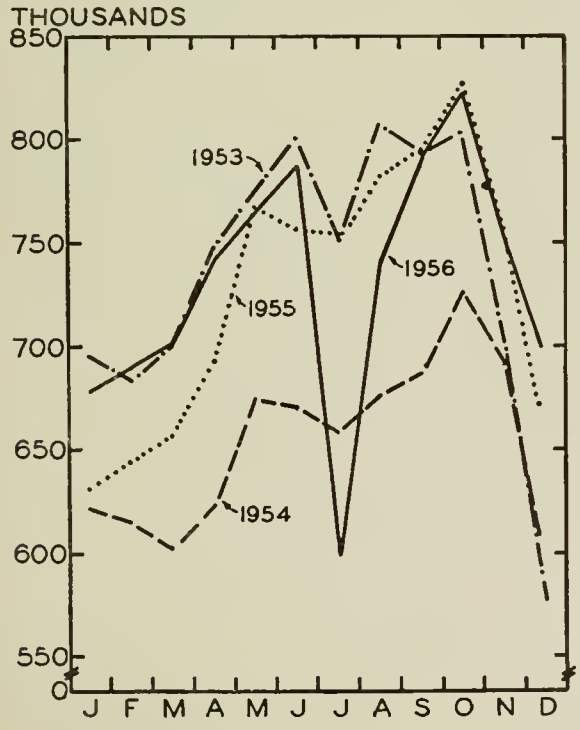
During the third quarter, total working capital increased by about $800 million. Current assets rose by $5.5 billion, mainly on the strength of increased receivables and inventories, and liabilities were up by $4.6 billion as Federal income tax liabilities and accounts payable increased seasonally.

In addition to the $800 million rise in net working capital, corporations invested $7.7 billion in new plant and equipment during the quarter. Seventy percent of total investment was financed internally from retained earnings and depreciation reserves. The bulk of the remainder was financed through long-term borrowing.

Freight Carloadings Maintained

Freight carloadings in December averaged about 660,000 cars per week, down seasonally from November but equal to the December total of last year. As shown by the accompanying chart, loadings ran above 1955 throughout the first half of the year, but dropped sharply in July because of the steel strike. The recovery in August and September to the 1955 volume in the fourth quarter enabled carloadings in 1956 to about equal 1955, though they were below 1953's volume.

FREIGHT CARLOADINGS



Source: Association of American Railroads.

Coal carloadings in 1956 were up 9 percent over 1955, livestock loadings were up 1 percent, and lumber loadings 2 percent. These gains were offset by cutbacks of 4 percent in ore shipments — due to the midsummer steel strike — and 5 percent in shipments of merchandise in less-than-carload lots.

Machine Tool Orders Off

New orders for machine tools continued downward in the fourth quarter of 1956. Preliminary estimates by the National Machine Tool Builders Association indicate that new orders in the fourth quarter were 16 percent below the third. Shipments, on the other hand, continued to rise, increasing 20 percent from the third quarter.

In 1955 a rush of new business, particularly in the late months of the year, pushed net new orders to $927 million compared with shipments of $670 million. New orders in 1956 about matched the 1955 volume. Orders greatly exceeded shipments in the first half, but by midyear had dropped back to the level of the latter and toward the close of the year fell below, as shipments continued upward and orders downward. The continued rise in shipments during 1956 carried the total for the year to $885 million, 30 percent above 1955.

At year-end the industry had a backlog of unfilled orders amounting to somewhat less than seven months' work. This compares with 8½ months' work in the first quarter of 1956, the high for the year.

Price Advance

Average consumer prices held approximately stable between October and November. The important food component of the consumer price index dropped slightly during the month to offset further advances in prices of apparel, housing, and services. However, at 117.8 percent of the 1947-49 base, consumer prices in November were 2.5 percent above the first quarter of the year.

Between the end of 1953 and early 1956 prices held within a narrow range just below 115 percent, as moderately falling food prices offset rising prices of other items. The advance that took place in 1956, mainly in the second quarter of the year, was due primarily to recovery in food prices. In recent months food prices have declined slightly, and with the exception of a sharp rise in the transportation index in October when new model automobiles were introduced, other consumer prices have also been relatively stable.

Wholesale prices continued to increase into December, rising three-tenths of a point from November to a level 4.5 percent above December, 1955. During the first half of 1956 all major groups of the index — industrial commodities, processed foods, and farm products — moved up together. The advance in farm product prices during the first half represented the strongest gain in this index experienced since 1950. Since midyear, farm product prices have again been declining and the rate of increase in processed foods has slowed; however, further advances in industrial prices have continued to pull the over-all wholesale price index upward at about the same rate evident since mid-1955.

THE SUEZ CRISIS

GEORGE KLEINER, Associate Professor of Economics

The Suez crisis has served to focus attention, again, on the economies of some of the Western European countries, particularly the United Kingdom. Coming, as it has, after several years of continuing prosperity and increasing production, it has shocked the world into a realization that these countries are still very vulnerable to any economic or political upset.

The widespread prediction of dire economic consequences for Great Britain seems all out of proportion to the military costs involved. The movement out of sterling has reduced Sterling Area gold and dollar reserves to less than $2 billion, the lowest level since 1952 and dangerously close to the $1.5 billion figure that is widely considered the rock bottom for any degree of safety. France's international economic position, already taxed by an unprecedented level of domestic economic activity and consequent demand for imports, is in danger of deteriorating sharply, with a loss of some of the gains in output made over the past few years. In most other Western European countries, difficulties in varying degrees are anticipated.

The Oil Cutoff

The primary cause of these difficulties is the reduction of oil deliveries from the Middle East, owing to the closing of the Suez Canal and the sabotaging of pipelines in Syria. Western Europe has become increasingly dependent on oil as a source of energy. In 1955 this dependence varied from 9 percent in Germany and 14 percent in the United Kingdom to 20 percent in France and as much as 44 percent in Sweden. These figures, of course, include private motoring, which can be, and has been, cut down by rationing and other devices. But they also conceal a wide variation as between industries: in the United Kingdom, where the average industrial dependence on oil runs about 10 percent, oil accounted for about a quarter of the fuel used in steelmaking in 1955 and about 45 percent in the case of transport other than private motoring.

Oil from the Middle East constituted about 85 percent of Western Europe's net imports in the first six months of 1956. Two reasons for this dependence on the Middle East are, first, the higher cost of Caribbean and United States oil, which would more than make up for the shorter sea journey, and second, the exchange problem. Whereas United States and Caribbean oil would require payment in dollars, Middle East oil is paid for primarily in sterling, even in the case of American-controlled output.

The journey from the Persian Gulf to Europe around the Cape of Good Hope is nearly double the distance via Suez. It is estimated that the whole tanker fleet that formerly took oil from the Middle East to Europe could bring not much more than 50 percent of that oil around the Cape. Aside from the increased cost involved (the currently used tankers are too small to be economical in the longer haul), any diversion of tankers to draw larger supplies from the Western Hemisphere would reduce the quantity of oil that could be shipped from the Persian Gulf. To cope with the extra mileage round the Cape would require an addition to the ships hauling Middle East oil of something like 14 percent of the world's tanker fleets; but apart from tonnage in the United States "mothball" fleet, some of which is being released, the world's tanker fleets are fully extended.

Some cut in oil supplies to Western Europe is thus inevitable. This cut in imports will mean some saving in foreign expenditure. But as against this, there will be some substitution of more expensive dollar oil for Middle East oil. Moreover, though exports from the United Kingdom and other Western European countries had been running remarkably well in 1956, dollars are still in short supply, so that additional expenditure of dollars is by no means offset by an equivalent saving in other currencies.

The shortage of oil may also have serious effects on domestic production and exports. In the United Kingdom, the cut of 10 percent in supplies by the oil companies made early in November would have restricted fuel supplies in industry by only about 1 percent, but the actual effect in terms of output will vary considerably from industry to industry, depending on stocks on hand, dependence on oil, and the ability to convert to coal (also very short and, marginally, a dollar import). In France, where dependence on oil is greater and initial stocks probably smaller, it has been estimated that the cut in oil, after allowing for some substitution from the Western Hemisphere, amounts to 25 percent of consumption, which would mean a cut in production possibilities of 5 or 6 percent. The reduction of private motoring could be written off as an expendable diminution in welfare that will not influence future economic growth to any extent. Also, to the extent that private motoring can be cut back, industrial supplies can be maintained. But automobile output has been badly hit because of the reduction in demand, and even if resources can be shifted to other industries, some loss of output and employment is almost inevitable in the short run. The more rapidly the Canal is reopened, of course, the smaller will be the dislocations in general; but some bottlenecks are likely to appear fairly soon throughout the economies of most of the countries, with attendant loss of production and the ability to export.

Other Strains

The closing of the Canal has reduced the flow of other imported supplies as well as of oil. In the United Kingdom stocks of imported supplies are reportedly very high, but for several other European countries this is not the case. For a short period, it is possible that the cut in imports due to the Suez blocking and the shortage of shipping facilities for longer hauls may even improve the foreign trade accounts; but this would be small consolation in view of the curtailment of production, and hence of exports, that such a decline in imports would entail.

Moreover, a protracted dislocation of trade and shipping might lead to the capture of foreign markets by competing countries, particularly Japan and the United States. Competition for export markets has become considerably keener in the past few years, compared with the immediate postwar period; and there is always the danger that a "temporary" disruption of accustomed trade channels will turn out to be far from temporary.

In addition to all these output effects, there are likely to be price effects that on balance will add to foreign exchange difficulties. All the main shipping lines operating regularly between Europe and East Africa, India, and the Far East have imposed a 15 percent surcharge on freight rates (whether cargoes are carried around the Cape or

through the Panama Canal), to allow for the extra costs incurred in longer transits. Some of this "extra" will find its way back as shipping earnings for some countries, but in the aggregate, it is a waste of resources and will involve a loss of real income for Western Europe.

Delays in shipping may also lead to an increase in the prices of a number of commodities. (Some have already gone up.) An increase in import prices relative to export prices would necessitate a larger volume of exports to pay for the same volume of imports. Under conditions of full employment, this would reduce the real income of Western Europe, since resources would have to be transferred from production for the domestic market to the export industries, without a compensating increase in the volume of imports; or, if exports could not be increased, the volume of imports would have to decline or foreign exchange reserves be reduced.

On the other hand, if import prices rise, there may be demands for increased wages. Bottlenecks of all sorts can also lead to price increases and to a further wage-price spiral. Such inflationary pressures generally tend to weaken reserves still further, both by increasing the demand for imports and by decreasing the ability to export. Over-all inflationary increases in prices can be harmful to exports in two ways: first, by increasing domestic demand for the resources needed in the export industries, and second, by making it more difficult to market exports in the face of competition from other countries that have been more successful in checking price advances.

The Loss of Reserves

Finally, one of the most important strains is the pressure on sterling, hence on dollar reserves, because of speculation and capital flight. Sterling is an international currency. Perhaps half of the free world's trade is conducted in terms of sterling, and balances in sterling are consequently widely held. Sterling Area gold and dollar reserves are low, and sharp declines in these reserves have recurred with painful regularity in the postwar years. Any strong economic or political shock tends to promote widespread fear of either devaluation or a tightening of controls. Although the conversion of sterling into dollars is, strictly speaking, controlled, considerable movement into dollars is nevertheless possible. Within the last several years, moreover, such movement has been made easier as a result of relaxation of controls.

Thus far the British have been remarkably successful in dealing with this assault on sterling, which began with the seizure of the Suez Canal by Egypt in July. This stabilization operation, however, has already cost them a considerable amount in dollar reserves, since essentially it consists in buying sterling with dollars whenever the former shows marked signs of weakness, in the hope that speculators will be forced to cover and further movement will be averted. (The credits from the International Monetary Fund and the United States Export-Import Bank were also largely designed to reduce speculation by a show of strength.) The longer it takes for production and trade to return to normal, the greater is the chance that such speculation against sterling will persist; hence the greater the loss of dollar reserves.

Most of these strains apply to the other Western European countries as well as to the United Kingdom, though in varying degree. Moreover, they tend to reinforce each other, to increase, as it were, in geometric proportion. On the other hand, the sooner the Suez Canal is reopened to shipping and the sabotaged pipelines repaired, the less likely that any serious strains will materialize. In that event, the cost of the Suez crisis would in fact turn out to be very small.

The crisis may even turn out to have some salutary effects, by compelling a re-examination of the longer-run problems. One of these is obviously the dependence of Western Europe on the Middle East, both in terms of oil and shipping through the Canal. The shipping problem was bound to come up fairly soon, given the rise of nationalism in the Middle East and the expiration of the treaty governing the Canal. Since it is as economical, in terms of transport per ton of oil, to ship in a tanker of 65,000 tons dead-weight around the Cape as it is to employ a tanker of even 45,000 tons dead-weight via the Canal, the solution seems to lie in the building of larger tankers.

The fuel problem cannot be solved so easily. Western Europe's dependence on oil is not only high at present, but it is growing very rapidly, while the production of coal has encountered increasing difficulty. The obvious long-term solution lies in the use of atomic energy, and some important results in this may be expected by, say, 1975. But here, as in the case of shipping, the ultimate gain can only be achieved through the absorption of current resources in investment, so that the intermediate-term problem is accentuated rather than relieved.

The Need for High Investment

Shipping and atomic energy are only two specific instances in the general need for the maintenance of a high level of investment. The advantage of a high level of investment lies in the increase in output made possible. It has been estimated, for example, that the new investment initiated in 1955 and 1956 in the United Kingdom, and currently coming into use, should make for an increase in output by the end of 1957 of about 8 percent. Germany, the Netherlands, France, and other countries as well have experienced even more spectacular annual increases over the past few years. These provide the best sort of insurance against economic and political shocks.

The difficulty with maximizing investment lies in the alternative pulls for resources: for exports, for defense, and for consumption. To minimize the danger of balance of payments crises arising in the future, foreign exchange reserves should be built up. This means that exports must rise relative to imports. Aside from the fact that it is obviously impossible for all countries to succeed in this objective at the same time, a high level of investment militates against the building up of foreign exchange reserves, both by increasing the demand for imports and by decreasing the availability of resources for the export industries. Even this can be handled without undue inflationary pressures if defense expenditures are kept to a minimum or consumption expenditure is kept in check. Obviously this is a difficult choice to make.

Germany is frequently cited as the prime example of a country that has solved the problem of maintaining a high level of investment while at the same time building up its foreign exchange reserves. This thesis needs to be examined more carefully. First of all, the increases in aggregate investment and output since 1950 are not as spectacular as they seem, since output before 1950 was extremely low and some of the addition, rather than breaking new ground, has really been rebuilding, always an easier task. Secondly, there was a considerable amount of unemployment in 1949-50, which was swelled by an

influx of refugees. The increase in investment and output per employed person has not been so large as the increase in the aggregates might suggest. Finally, Germany has achieved its high investment levels and its balance of payments surpluses in part at the expense of lagging real living standards, with money wage rates failing to keep pace with output per man-hour (at least until 1955), in part because of the relatively low level of defense expenditures. Full employment, increases in wage rates, and the siphoning-off of manpower for defense will undoubtedly limit the rate of increase in the next few years.

It is difficult to reconcile these alternative pulls for resources. There is even the danger that measures designed to decrease the domestic demand for resources, in order to maximize exports, will reduce the incentive to invest. In the United Kingdom, in 1956, restrictions on consumer purchases of durables and the general tight money policy may have overshot the mark somewhat. Even in Germany, since the summer of 1956, there have been signs that the incentive to invest has been weakening: the slowing-down of industrial production was sufficiently pronounced to induce a decrease in the central bank's discount rate in the hope that easier money would continue the upward trend.

In the past four years or so, most of the Western European countries were able to maintain the delicate balance needed to avoid serious inflation, on the one hand, or deflation and unemployment, on the other. Several of them, however, were unable at the same time to accumulate a significant increase in reserves. Any unanticipated drain on reserves, such as the Suez crisis, leaves them in a precarious position. Particularly is this true for the United Kingdom, because of her international financial position.

To build up reserves, however, would require cuts in one or more of the alternative pulls on resources. There is already evidence that Great Britain is planning to scale down her expenditures for defense. But a cut in consumption is difficult to achieve in a democratic economy and would not even be desirable if the inducement to invest is at all weak; and a cut in investment would reduce the rate of future growth of output. Perhaps the best long-run solution to this dilemma is to aim for the maximum investment consistent with relatively stable prices; and to aim for an increase in reserves ultimately through increased output and exports, without trying to safeguard them in the interim through reduced investment expenditure.

Assuming Prosperity for Consumers

(Continued from page 2)

business, concerns squeezed by rising costs face the dilemma that an adverse market reaction or a loss of market share to competitors might result from pushing prices up further. This is the dilemma that typically emerges in the late stages of a boom.

The wave of price increases did make a contribution to the upsurge, by inducing inventory accumulation. But if prices are not going up further, there is no longer the same inducement to buy and hold. Any shift in policy toward liquidation will turn prices down with the reduction in output and incomes that such a policy implies.

Most of the autonomy in the price picture derives from the relation between the price level and the money supply. The money supply, however, has been a relatively stable element during the recent advance. The tight money policy has helped to restrain monetary expansion, forcing a larger volume of business to be carried by increasing velocity. This also usually happens at the end of a boom. Any autonomous influence of the money supply in the current situation is therefore on the unfavorable side. There is nothing in monetary conditions, current business policy, or recent "trends" to guarantee the continuation of advances in the price level. The only real hope for such a development lies in the possibility of a higher volume of over-all demand.

Saving Or Borrowing?

There is one other chance of getting higher consumer expenditures, that is, through a reduction in savings. Considering this possibility from the standpoint of savings as such, this argument appears to have little merit. At the recent rate of $21 billion, savings are not unduly high when judged on the basis of past relationships. On the contrary, they are still about $1 billion below what might have been expected in 1956.

What is more commonly argued is that there will be another upsurge of borrowing to finance purchases. In the third quarter of 1956, the use of credit to finance consumption was at a rate of less than $2 billion, only a fraction of what it had been a year before. This, apparently, leaves considerable room for recovery. What it ignores is the fact that consumer credit exhibits cyclical patterns of behavior. The liquidating phase of the credit cycle has thus far been averted, but it is more likely to put in an appearance soon than that a substantial rebound toward the earlier highs will occur.

Consumer credit is, of course, based primarily on sales of durable goods. Total consumer purchases of durable goods declined steadily from the peak of $37 billion in the third quarter of 1955 to $33 billion in the third quarter of 1956. This decline should have been enough to bring the expansion in credit to a halt. Among the reasons why it did not are the following: First, the easing of terms that began in 1954 and progressed through the summer of 1955 has not yet completely worked itself out in repayments. Repayments have been growing steadily, but have not completely caught up with new credit extensions. The latter have moved irregularly in a range just under the late 1955 highs. Second, the proportion of sales on credit has been unusually high in 1956, perhaps an all-time record. This partly reflects the fact that the cash buyers have been out of the market, but it also indicates that credit resources were being rather fully utilized.

Practically all of the decline in durable goods sales and in credit extensions has been in autos. Other durables remained high through most of 1956. The hope of the optimists is that auto sales will rebound toward the 1955 high. Last month, the optimistic forecasts of auto sales were challenged. What happened to autos in 1956 was not an adjustment in the sense that the auto cycle had passed through its liquidating phase; the decline merely eliminated the excesses of 1955. If real consumer income holds steady in 1957, downward tendencies will be experienced, not only in autos, but in other durable goods as well. If income should decline, the slide will accelerate.

Savings may indeed decline in 1957. This is most likely to happen under conditions where the decline in income is even greater. Increased international tension might have the same effect, but aside from this possibility, there is no logical basis for assuming that the consumer sector will push the economy forward in 1957.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

America on Wheels

Of the 50 million families in the United States in 1956, 73 percent owned automobiles, and 11 percent owned more than one. According to the Automobile Manufacturers Association, these 36 million car-owning families represent a gain of nearly three-fifths since 1948 in the number of families possessing cars, whereas the total number of families has increased less than one-fifth.

Accompanying the rise in demand for passenger cars was a shift in body-type popularity. In 1940, two- and four-door sedan sales accounted for about 96 percent of total factory sales, but in 1955 sales of these two body types represented only 60 percent of the market. Of growing importance were hard tops and station wagons, accounting for 27 and 10 percent respectively of factory sales in 1955. Sales of convertibles remained nearly constant at 3 percent of the total over the 15-year period.

Imported cars have been seen in increasing numbers. In 1940 imported cars on the road totaled 555; in 1955 the total was 58,238. A striking change in the new-to-used car ratio accompanied this increase; new automobiles represented 46 percent of the total in 1940 compared with 98 percent in 1955. Of these 57,115 new cars, 60 percent were imported from West Germany and 36 percent from the United Kingdom.

Family Food Expenditures

An average food expenditure of $27 a week for housekeeping families in the United States in the spring of 1955 has been reported by the United States Department of Agriculture. About $22 was spent for home food consumption and the remaining $5 for meals and between-meal food away from home.

Rural-urban differences were apparent in both per family (see chart) and per capita comparisons. As shown by the following table, average family size increased and per capita food expenditures decreased with decreasing urbanization.

	United States	*Urban*	*Non-farm*	*Rural non-farm*	*Rural farm*
Average family size.....	3.43	3.26	3.35	3.56	4.01
Average total cost per member.....	$7.89	$9.20	$8.44	$6.82	$4.28
Average home cost per member.....	6.50	7.43	6.92	5.83	3.75
Average away-from-home cost per member	1.39	1.77	1.52	0.99	0.53

Regional differences in total food expenditures per family were small with the exception of the South. Average food costs were as follows: Northeast, $31; North Central, $28; West, $30; and South, $22. Differences per person were relatively greater since southern families were larger.

An income comparison of food expenditures by families with two or more members showed $33 spent per week by families having $5,000-$6,000 after-tax income and $15 by families whose income was less than $2,000. Since average family size was larger in the higher income bracket, cost per person was not quite twice as large as that of the low-income families. A greater contrast was evident in at-home and away-from-home consumption. For food consumed away from home, high-income families spent, per capita, three times as much as low-income families but only 1.8 times as much for home-consumed food.

Small Business Administration

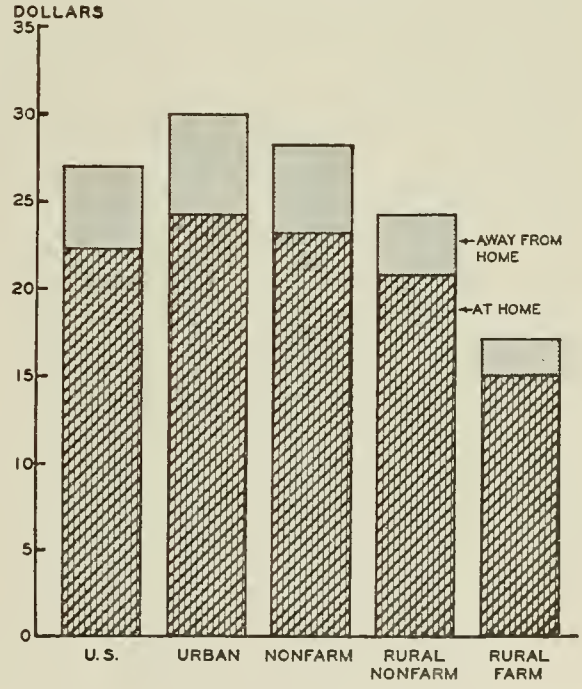
Offering three major services to small firms, the Small Business Administration is the first peacetime independent Federal agency created solely to advise, assist, and protect small business enterprises. Contract assistance, management and technical aid, and financial assistance are the three areas of service.

The Small Business Administration has defined a small business firm as "one which is independently owned and operated and which is not dominant in its field of operation." It has as its prime objective the encouragement of maximum assistance to small business concerns by agencies in their own communities. A pamphlet describing the creation, organization, and functions of the agency, *Small Business Administration — What It Is, What It Does*, is available free on request from the Small Business Administration, Washington 25, D. C.

Banish Winter Worries

Ice slips and spills may be avoided by using Ice Rem-CF, which contains neither calcium nor chlorides. This ice-melting, noncorrosive material is said to be nearly 100 percent chemically active, yet does not produce a heat effect as part of its melting process. The manufacturer, Speco, Inc., 7308 Associate Avenue, Cleveland 9, points out that this characteristic is desirable in ice-melting agents that are applied on cement, concrete, and asphalt.

FOOD EXPENDITURES, 1955
Per Family Per Week



Source: U. S. Department of Agriculture, *Food Expenditures of Households in the United States.*

LOCAL ILLINOIS DEVELOPMENTS

In general, Illinois business in November did not keep pace with the preceding month. With the exception of life insurance and department store sales, indicators declined slightly.

On the other hand, comparisons with November, 1955, showed increased activity in all areas other than manufacturing employment, which decreased slightly. Gains of at least 10 percent were recorded for Chicago department store sales and bank debits. Chicago business loans increased more than one-fifth and life insurance sales more than one-third.

Manufactured Dairy Products

Significant changes were evident in the amount of Illinois dairy products turned out by processors in 1955 as compared with 1951. The United States Department of Agriculture reported a 20 percent gain in cheese output and a 30 percent increase in cottage cheese production over the five-year period. In 1955 nearly 88 million pounds of dry cheese and 61 million pounds of cottage cheese were produced in the State. The 16 million pounds of nonfat dry milk solids for human food produced in 1955 reflected a gain of 120 percent.

Large production decreases took place in condensed milk and condensed or evaporated buttermilk. The former declined 34 percent to 33 million pounds and the latter 25 percent to 34 million pounds. Butter, which amounted to 50 million pounds in 1955, and evaporated milk, 146 million pounds, showed declines of about 8 percent.

In the frozen dairy product line, both ice milk and sherbet production reached record high levels with increases of at least two-thirds. However, these two products account for only a little more than one-fifth of total frozen dairy products manufactured. Ice cream, the principal frozen product, declined about 5 percent to 31 million gallons.

Hybrids Out Front

Superiority of hybrid grain sorghums has been shown in tests of 37 varieties of standard and hybrid sorghums conducted in Champaign, Macoupin, Mason, Morgan, and Fayette counties. Carl N. Hittle, a University of Illinois agronomist, reported the average sorghum test yield to be 102 bushels per acre, but hybrids averaged 110 bushels whereas standard varieties made only 92 bushels.

Damage due to corn borers varied among the different types of sorghum. However, corn showed the greatest damage effects of all, and Hittle reported that sorghum would be preferable to corn in situations where a shortage of moisture existed or a short-season crop was desired. In the event of a corn allotment plan, sorghum could be grown on land taken out of corn production.

Unused or Misused Resources

Making the most of timber resources in the southern 16 counties of Illinois is a primary concern of the Carbondale United States Forest Research Center. These counties now contain more than 1,000,000 acres of timber and about 750,000 additional acres would probably be better suited for forestation than for other uses, according to the 1956 annual report of the Research Center. Under a proper timber management program, both unforested and forested land can often be utilized more fully. New forest areas can be gained from relatively poor land, neglected in order to give attention to acres yielding higher returns, and from unprofitable farm land. Although large returns may not be obtained quickly from forested acres, a steadily increasing income at a low rate of labor input is possible with good management.

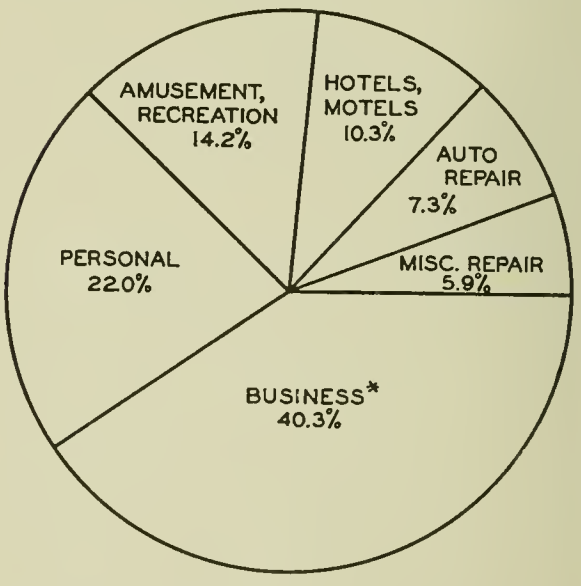
Southern Illinois forests present an economic problem, for many of the trees are of low quality and consequently of little cash value. Culling these trees, harvesting them as saw timber, and permitting the better quality trees to develop more rapidly is one method of handling this problem. However, the Research Center is seeking another answer. David E. Herrick, research forester, states that it has been established that lumber can be upgraded through the use of paper overlays which mask objectionable defects, reduce warping and splitting, and form a substitute surface receptive to paint. Tests are now under way to determine whether the use of paper overlays on low-quality hardwoods is a paying proposition.

Selected Services

Total 1954 receipts for selected services in Illinois amounted to nearly $2 billion, according to the recently released *1954 Census of Business.* Illinois receipts were 8.5 percent of the national total, exceeded only by New York and California.

Of the six major kind-of-business classifications, business services accounted for two-fifths of total receipts (see chart). Advertising (which received two-thirds of all business services returns), duplicating, and photofinishing were major types of establishments enumerated. Personal services — including laundries, cleaning plants, and beauty shops — collected slightly more than one-fifth of total receipts. Returns from amusement and recreation services were dominated by motion picture theater receipts. Hotel receipts accounted for over 90 percent of total income for the overnight lodgings group. Automobile and miscellaneous repair received the remainder of total returns.

RECEIPTS FROM SELECTED SERVICES
Illinois, 1954



* Excluding accounting, auditing, and bookkeeping.
Source: U. S. Department of Commerce, *1954 Census of Business.*

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1956

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$28,886[a]	1,109,243[a]	$546,275[a]		$15,353[a]	$14,871[a]
Percentage change from Oct., 1956	−3.1	+4.4	+0.1	+17	−1.7	−0.3
Percentage change from Nov., 1955	+3.2	+7.9	+5.2	+11	+10.6	
NORTHERN ILLINOIS						
Chicago	$20,853	849,093	$396,398		$14,004	$13,088
Percentage change from Oct., 1956	+15.3	+5.4	+0.8	+16	−1.1	+1.2
Percentage change from Nov., 1955	−2.4	+9.1	+5.2	+10	+10.9	
Aurora	$ 585	n.a.	$ 8,233		$ 66	$ 127
Percentage change from Oct., 1956	+39.0		+3.3	+14	+0.2	+4.6
Percentage change from Nov., 1955	+263.4		+8.0	+15	+12.8	
Elgin	$ 420	n.a.	$ 6,138		$ 42	$ 122
Percentage change from Oct., 1956	−15.0		−3.9	+29	+2.9	+18.2
Percentage change from Nov., 1955	−28.8		+4.5	+8	+20.4	
Joliet	$ 931	n.a.	$11,839		$ 85	$ 96
Percentage change from Oct., 1956	+141.8		+1.1	+16	+5.6	+8.8
Percentage change from Nov., 1955	+250.0		+3.0	+13	+14.6	
Kankakee	$ 223	n.a.	$ 4,798		n.a.	$ 44
Percentage change from Oct., 1956	−45.6		−4.8	n.a.		+1.5
Percentage change from Nov., 1955	−27.8		−2.1			
Rock Island-Moline	$ 873	19,999	$ 9,741		$ 100[b]	$ 132
Percentage change from Oct., 1956	−28.7	+21.2	−0.5	n.a.	−1.2	−8.0
Percentage change from Nov., 1955	+74.3	−12.1	+7.6		+10.6	
Rockford	$1,151	42,982	$17,960		$ 179	$ 206
Percentage change from Oct., 1956	−34.9	−2.9	−2.7	n.a.	+0.3	+6.7
Percentage change from Nov., 1955	+14.2	+14.2	+11.1		+10.6	
CENTRAL ILLINOIS						
Bloomington	$ 139	7,691	$ 5,349		$ 58	$ 88
Percentage change from Oct., 1956	−28.4	−2.8	−1.8	n.a.	−10.7	−8.7
Percentage change from Nov., 1955	−23.2	+1.7	+11.9		+7.2	
Champaign-Urbana	$ 361	10,559	$ 7,933		$ 66	$ 100
Percentage change from Oct., 1956	−10.4	+1.2	+12.3	n.a.	−16.1	−7.1
Percentage change from Nov., 1955	+83.2	+6.4	+5.9		+6.9	
Danville	$ 167	11,410	$ 6,369		$ 54	$ 60
Percentage change from Oct., 1956	−52.0	+6.0	−2.7	+13	−10.7	−7.9
Percentage change from Nov., 1955	−28.3	+13.3	+3.0	+14	+7.2	
Decatur	$ 632	32,487	$11,832		$ 120	$ 101
Percentage change from Oct., 1956	−35.7	+1.8	+1.8	+10[c]	−18.2	−7.5
Percentage change from Nov., 1955	−39.8	+0.4	+4.9	+13[c]	+3.2	
Galesburg	$ 149	7,725	$ 4,410		n.a.	$ 34
Percentage change from Oct., 1956	−18.6	−6.1	+3.2	n.a.		−0.8
Percentage change from Nov., 1955	−39.4	−3.8	−4.5			
Peoria	$ 755	52,600[c]	$17,806		$ 225	$ 263
Percentage change from Oct., 1956	−19.9	+2.8	−6.9	+18[c]	−11.1	+7.9
Percentage change from Nov., 1955	−32.7	+4.6	+4.5	+10[c]	+2.9	
Quincy	$ 509	9,340	$ 4,826		$ 42	$ 65
Percentage change from Oct., 1956	−16.8	+3.8	−5.0	+14	−4.3	+16.2
Percentage change from Nov., 1955	+111.2	+9.6	+4.9	+7	+7.6	
Springfield	$ 288	33,522[c]	$13,497		$ 120	$ 216
Percentage change from Oct., 1956	−90.0	+3.3	−5.7	+16	−5.5	−11.0
Percentage change from Nov., 1955	+48.5	+5.4	+3.1	+8	+9.4	
SOUTHERN ILLINOIS						
East St. Louis	n.a.	11,003	$ 9,431		$ 152	$ 51
Percentage change from Oct., 1956		−12.8	−1.7	n.a.	−9.9	−80.4
Percentage change from Nov., 1955		−8.4	−0.6		+11.8	
Alton	$ 65	13,637	$ 4,722		$ 39	$ 30
Percentage change from Oct., 1956	−80.9	−9.6	−10.3	n.a.	−3.0	−2.5
Percentage change from Nov., 1955	−59.1	+9.2	−4.8		−0.6	
Belleville	$ 785	7,194	$ 4,993		n.a.	$ 47
Percentage change from Oct., 1956	+423.3	+5.7	+8.1	n.a.		−0.2
Percentage change from Nov., 1955	+393.7	+12.4	+19.4			

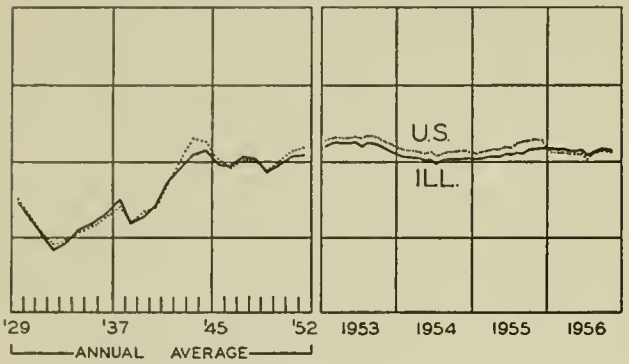
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for September, 1956. Comparisons relate to August, 1956, and September, 1955. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending November 16, 1956.

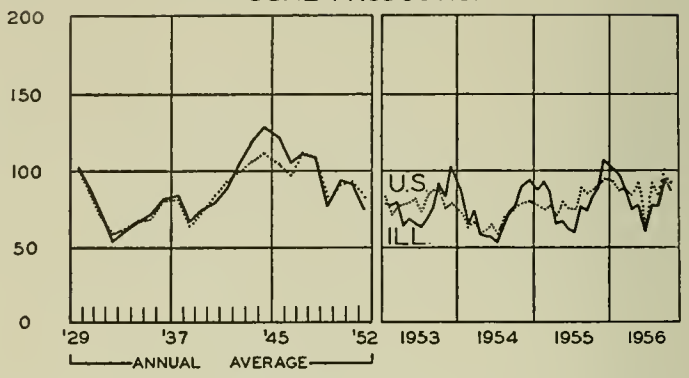
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

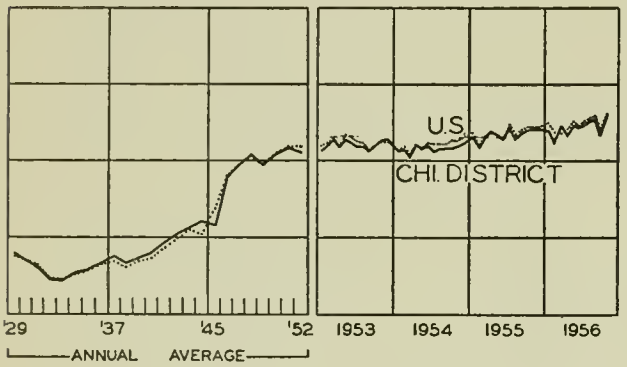
EMPLOYMENT–MANUFACTURING



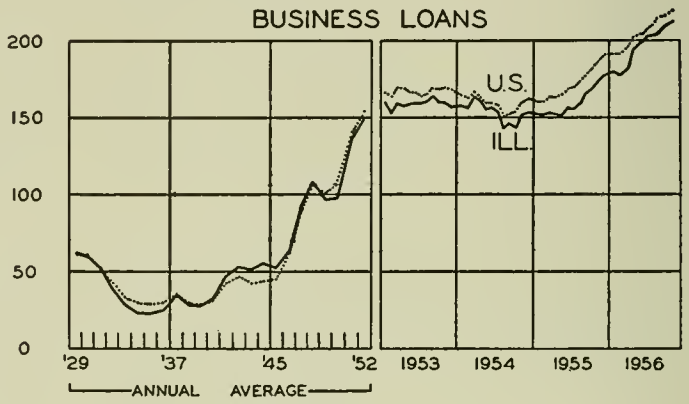
COAL PRODUCTION



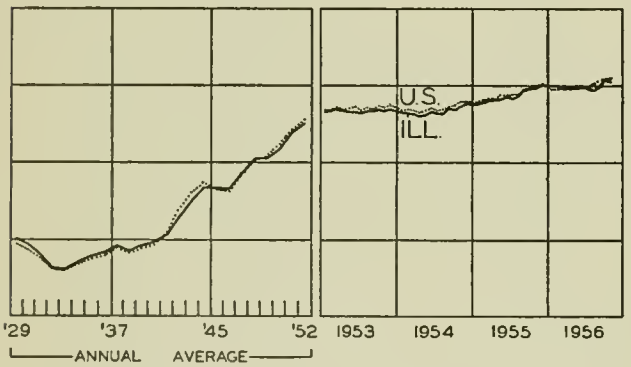
DEPARTMENT STORE SALES



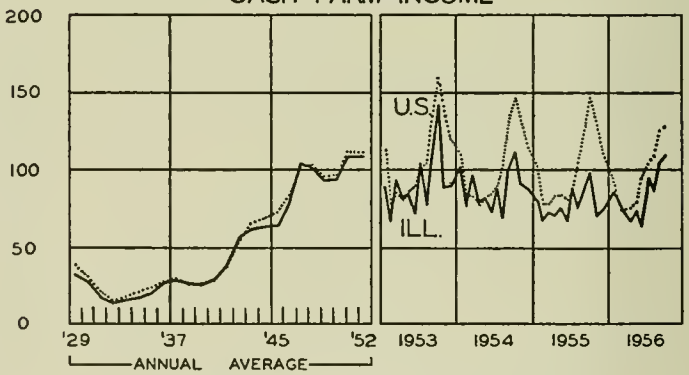
BUSINESS LOANS



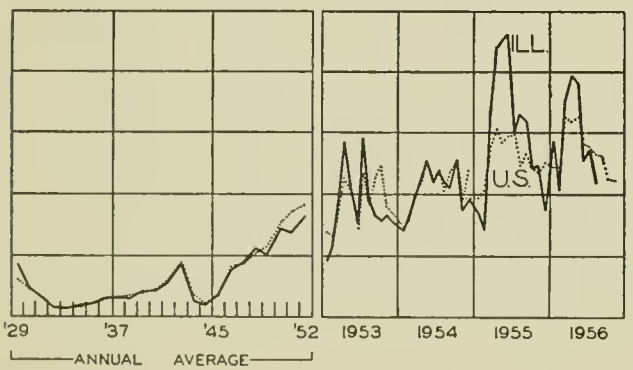
AVG. WKLY. EARNINGS — MANUFACTURING



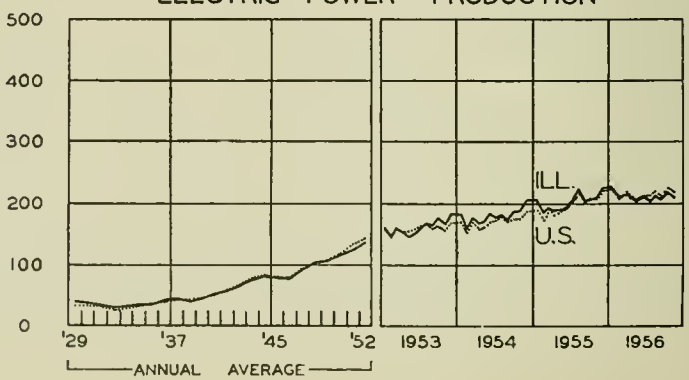
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JANUARY

Business activity continued at a high level in January, although some important segments of the economy compared unfavorably in their performance with the preceding month or the same month a year ago. The auto industry helped to maintain the generally high rate of industrial output that has prevailed in recent months by producing 642,000 passenger cars, an 8 percent increase over the previous month and nearly 5 percent above January, 1956. However, auto sales in January failed to match industry expectations and a further increase in inventories occurred. At the same time, the industry was reducing its inventories of steel, with adverse effects on steel orders and output. Although steel tonnage was still very high, it exceeded January, 1956, output by only a few thousand tons and mills operated below capacity for the first time in many weeks, with actual production falling below weekly scheduled output by the end of the month.

Electric power output continued its upward climb, spurred by unusually cold weather in January. Department store sales in January were up less than 2 percent over those of last year, and with retail prices up somewhat more the physical volume fell slightly. After allowance for seasonal factors, dollar sales were down about 2 percent from December to January. Paperboard production was down about 10 percent from January a year ago, and lumber production in the first three weeks was 13 percent below the comparable 1956 period. The latter decline reflected the continued slump in residential construction. Heavy construction contract awards, which at the very high levels of last year contributed greatly to the record volume of construction, fell 32 percent in the first four weeks of January as compared with the same period in the previous year. Reduced activity in other industries was reflected in movements of goods by rail and truck. In the four-week period ending January 26 total freight carloadings were down 6 percent from the same period in 1956.

Employment Drop

Employment declined by 1.7 million and unemployment increased by almost half a million between mid-December and mid-January. Both changes were attributed to seasonal cutbacks in Christmas retail and postal jobs and in construction and other outdoor work. It is estimated that more than 1.2 million workers, mostly housewives and students who held temporary Christmas jobs, left the labor force.

The employment total of 62.9 million and the unemployment figure of 2.9 million were about the same as for January, 1956. However, the decline in total employment from mid-December was the largest in eight years.

January nonfarm employment was the highest for any January on record, although it was 1.5 million below the previous month. Manufacturing employment was down slightly more than seasonally to 16.9 million as a result of larger-than-seasonal declines in apparel, radio and television manufacturing, furniture, and fabricated metals industries, as well as normal reductions in food processing and lumber.

Construction Outlays Down Seasonally

Outlays for new construction amounted to $3.0 billion in January, a decline of 10 percent from the $3.4 billion for December, but still 3 percent above the $2.9 billion January record established last year. On a seasonally adjusted basis, expenditures for the month were at an annual rate of $44.8 billion, slightly above actual outlays in 1956.

Private construction declined more than seasonally to $2.2 billion in January. New houses accounted for $895 million of this, a drop of 16 percent from December and 9 percent from a year ago. Stores and farm buildings contributed to the fall in total outlays, whereas spending for industrial plants, office buildings, churches, schools, hospitals, and public utilities set new January records.

Outlays by Federal, state and local governmental units for public construction were 12 percent above January a year ago, although down 4 percent from December. Record January expenditures for highways, schools, sewers, and water projects were noted.

Consumer Debt Rise Continues

Consumer debt increased $1.2 billion in December to bring the total outstanding to $41.9 billion at the end of the year. The increase during the year amounted to $3.2 billion. Installment debt made up $31.5 billion of the total on December 31, a rise of $528 million in the month and $2.5 billion in the year. The increases in the total and in the components during December, 1956, were smaller than the December, 1955, advances and those for the whole year were only about half as large as in 1955.

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ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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The Federal Reserve's Responsibility

At a press conference on the Federal budget for fiscal 1958, Secretary of the Treasury Humphrey said that if the increasing cost of government were not stopped, "we'll have a depression that will curl your hair." This remark appears to have been widely misinterpreted. He was not concerned about any immediate threat of deflation. He was merely expressing fear of the reaction that might come later, after more extreme inflation had run its course. His prediction was one of those that threaten a disease in order to sell a cure. It was an attempt to line up the support of anti-deflation sentiment for anti-inflation policy.

Secretary Humphrey's remark may be taken as support for the "tight money" policy of the Federal Reserve Board. The theory behind that policy is to impose a restraint which will minimize the extremes of the boom and therefore also minimize the extent of any subsequent reaction. Practically nobody, however, wants to be restrained at the peak of the boom. Resistance to control has recently taken form in protests from various parts of the economy. Widespread criticism was given specific attention in hearings on Federal Reserve policy held by a subcommittee of the Joint Economic Committee, with Representative Patman (D., Texas) as chairman. President Eisenhower called for a comprehensive two-year study of the situation by a special "National Monetary and Financial Commission" he proposed to appoint. Some congressmen felt this was just a way of ignoring the protests, since too much could happen in so long a period. The House Banking Committee decided to proceed with a sweeping investigation of its own, again under Rep. Patman's chairmanship.

Functions of the Federal Reserve

The controversy clearly goes beyond current monetary policy. It involves the basic functions of the Federal Reserve System and ultimately, the question whether we should have any monetary control at all. Rep. Patman points out, first, that the Constitution assigns to Congress the power to control money and its value, and second, that existing law, which delegates this power to the Federal Reserve, can be changed.

In the literature on money and banking, it is generally taken for granted that the Federal Reserve has stabilization as well as other central bank functions. It is held responsible, not only for supplying the money needed to conduct the nation's business, but for preventing deterioration in the value of money through inflation. These are conflicting objectives: The money supply must expand; but it must not expand too fast. The great inflations of history resulted from undue expansion of the money supply.

Most experts in the field agree that FRB's stabilization powers are primarily anti-inflationary and should be directed toward keeping booms from getting out of hand. Its operations are relatively ineffective in a depression; it can then make funds available, but if nobody wants to spend them, they merely lie idle. The extreme easy money conditions of the 1930's contributed little to economic recovery.

Even in times of prosperity, it has not been able to impose as effective restraints as many considered desirable. For one thing, a given money supply can carry a larger volume of business when the money passes more rapidly from one transaction to the next. The velocity of circulation has been rising steadily in the last two years, and is now at a level not exceeded since the early 1920's.

Obstacles to effective monetary action also arise from conflicts with other aspects of national policy. When the government needs financing, the Treasury does not want its ability to raise funds hampered by tight money policies. Conflict tends to develop whenever public demands for large spending programs and for low taxes put the government in the position of running deficits. Fortunately, deficits are not a factor in the present situation.

From this broad view, it may be seen that Federal Reserve action to stabilize the economy can be effective in limited circumstances only, primarily those where prosperity is high, tending to push prices up, and where there is little prospect of a government deficit. Taking these as the circumstances that specifically call for the use of monetary controls, it may be said that there never was a better situation than 1956 to justify their application. In 1956, there were some shortages; prices were moving up faster than is desirable; and the government budget showed a surplus. The opponents of tight money would apparently rule out this control in the one situation where it was truly applicable.

Is the Federal Reserve Guilty?

Recent developments call attention to the inadequacies of monetary control as well as to the opposition it faces. Despite the fairly tight rein kept on Federal Reserve Bank credit, commercial loans continued to expand sharply during 1956, though at a rate moderately below 1955. Mortgage debt also continued to expand at a rate not far below 1955. Consumer credit expansion amounted to over $3 billion, somewhat more than half as much as the year before. The expansion of credit over a two-year period was tremendous, and it came up against the limits of resources available in our money and capital markets.

The coincidence of all these demands for funds, straining against a relatively fixed money supply, brought on the tight money conditions of late 1956. That these conditions were not wholly without effect may be judged from the howls of pain from those whose activity was restricted. Most of these came from home builders who were not able to compete effectively for the funds still flowing to borrowers. The showing that others, too, were placed at a disadvantage — for example, small business

(Continued on page 8)

THE PETROCHEMICAL INDUSTRY

Through general usage the term "petrochemical" has come to refer to a chemical compound or element derived from petroleum or natural gas and intended for chemical markets. For the most part, these oil- and gas-derived products consist of synthetic organic chemicals produced in the course of petroleum refining operations or directly from natural gas.

Products

Basic hydrocarbons, such as methane, ethane, propane, and butane, may be extracted from petroleum or natural gas and used as starting material for a series of chemical processes. In the case of ethane, for example, it is thermally cracked and an intermediate petrochemical called ethylene is produced. The ethylene becomes a "building block" and can be converted into primary products such as ethyl alcohol, polyethylene (plastics), or ethylene oxide. In turn, the ethylene oxide can be converted into numerous other products such as ethylene glycol (antifreeze and plastics), acrylonitrile (synthetic fibers, rubber, and plastics), or ethanolamine (detergents).

The increased demand for synthetics has opened up an amazing future for petrochemicals. Altogether, they have found their way into nearly 3,000 chemical substances and new products are being added at the rate of approximately 400 a year. Petrochemical products have penetrated every aspect of our daily life and are found in our food, clothes, homes, and transportation facilities.

Petrochemicals are used in making fungicides, insecticides, pesticides, fertilizers, refrigeration compounds, and synthetic vitamins, all of which have a bearing on our food supply. Synthetic fibers such as nylon, Dacron, Orlon, Dynel, and Acrilan have made large inroads in the textile industry. The use of plastics in housing, furniture, luggage, table tops, and flooring has left its impression in the home, as has the production of synthetic detergents that take the place of soap. Other uses, such as synthetic rubber, oil additives, antiknock compounds, and paints, are well represented in the automotive field.

Development and Growth

The Standard Oil Company of New Jersey commenced making alcohols from petroleum raw materials as early as 1919, but Union Carbide and Carbon Corporation is credited with pioneering the commercial aspects of the petrochemical industry during the early 1920's. While engaged in research on hydrocarbon gases, its scientists developed ethylene, propylene, and various other products that form the basis of the industry today.

Prior to World War II, the industry moved slowly. In 1940 capital investment amounted to $350 million and output was about 4 billion pounds a year. However, by 1945 the industry had more than doubled; these figures had increased to approximately $900 million and 8 billion, respectively. By 1950 the pattern had been set, and in 1955 investment stood at $4 billion and output was 31 billion pounds — a constant rate of growth, output having doubled every five years since 1940.

The industry currently consists of 197 firms with 362 major plants operating, building, or planned, as compared with 132 firms and 255 plants in 1953, the earliest year for which such statistics are available. Total production now represents a fourth of all United States chemical output, and judging from its rise during the past decade, it may well reach a third by 1960. However, petrochemicals already represent more than half of all chemicals in value.

The Industry in Illinois

There are currently 11 active petrochemical plants located in Illinois, and the State ranks about seventh in the nation in petrochemical production. Illinois, however, is favorably located so far as future expansion is concerned. Most indications are that the bulk of expansion in petrochemicals will be made by chemical firms, rather than by the oil industry. The former tend to prefer locations in the North, where the natural gas is available by pipeline and the plants are more strategically located with regard to markets.

Of special interest to the industry is the new, rapidly expanding petrochemical plant of National Petro-Chemicals Corporation at Tuscola. Formed in 1951 by National Distillers and Panhandle Eastern Pipe Line Company, this plant was built in 1953 at an initial cost of $50 million, but it has already undergone three expansions and is approaching a valuation of $100 million. Located on two major transcontinental pipelines, it produces petrochemicals from the hydrocarbons extracted from natural gas, and has the largest single unit ever built for cracking ethane to make ethylene. In addition, it boasts the largest synthetic alcohol plant in existence and produces more than 25 percent of the nation's ethyl alcohol. Last year it installed what is believed to be the largest anhydrous alcohol unit in the world. After individual hydrocarbons have been extracted, the gas is returned to the pipeline. If necessary, hydrocarbons may be reinjected into the natural gas stream in order to maintain B.T.U. content.

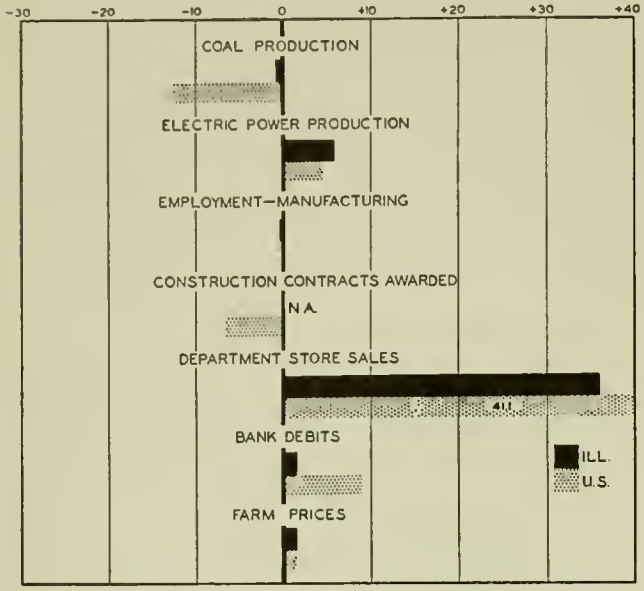
Also located at Tuscola is National Distiller's U.S.I. Chemical Division, which currently produces sulphuric and phosphoric acids, industrial alcohols, and ammonia. There is now under construction the first petrochemical plant ever built for making isosebacic acid, a product used by the plastics industry but currently derived from castor oil.

Other major producers of petrochemicals in Illinois are located primarily at the ends of the Illinois Waterway. Situated at the south end are Standard Oil of Indiana and Sinclair Chemicals at Wood River, and Socony Mobil Oil at East St. Louis. At the north end are Pure Oil, Lemont; Spencer Chemical, Calumet City; and Continental Oil and Ninol Laboratories, Chicago. Another, Commercial Solvents, is also on the Waterway at Peoria. Two others, Velsicol, at Marshall, and Witco Chemical, Lawrenceville, are in the southeast section of the State.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1956, to December, 1956



N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1956 (1947-49 =100)	Percentage Change from Nov. 1956	Percentage Change from Dec. 1955
Electric power[1]	226.0	+ 5.9	+ 1.0
Coal production[2]	88.0	− 0.8	−17.2
Employment—manufacturing[3]	108.0	− 0.2	− 0.9
Weekly earnings—manufacturing[3]	155.0[a]	+ 1.0	+ 3.6
Dept. store sales in Chicago[4]	122.0[b]	− 0.8	+ 7.0
Consumer prices in Chicago[5]	121.0	0.0	+ 2.1
Construction contracts awarded[6]	n.a.	.....	.....
Bank debits[7]	177.9	+ 1.3	+ 0.3
Farm prices[8]	79.0	+ 1.3	+11.3
Life insurance sales (ordinary)[9]	296.6	+10.1	+18.4
Petroleum production[10]	136.3	+ 4.4	+ 4.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] November data; comparisons relate to October, 1956, and November, 1955. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1956	Percentage Change from Nov. 1956	Percentage Change from Dec. 1955
	Annual rate in billion $		
Personal income[1]	333.5[a]	0.0	+ 5.0
Manufacturing[1]			
Sales	344.4[a]	0.0	+ 2.5
Inventories	51.4[a, b]	+ 0.2	− 0.4
New construction activity[1]			
Private residential	14.4	− 8.5	− 6.0
Private nonresidential	15.2	− 6.1	+ 9.9
Total public	10.8	−20.8	+ 9.1
Foreign trade[1]			
Merchandise exports	18.2[c]	− 8.5	+14.8
Merchandise imports	12.0[c]	−11.6	− 5.1
Excess of exports	6.2[c]	− 1.8	+93.0
Consumer credit outstanding[2]			
Total credit	41.9[b]	+ 3.0	+ 3.8
Installment credit	31.6[b]	+ 1.7	+ 2.4
Business loans[2]	31.3[b]	+ 3.0	+17.4
Cash farm income[3]	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	147[a]	+ 0.7	+ 2.1
Durable manufactures	166[a]	+ 0.6	+ 3.1
Nondurable manufactures	131[a]	+ 1.6	+ 0.8
Minerals	130[a]	0.0	+ 0.8
Manufacturing employment[4]			
Production workers	107	+ 0.1	− 0.9
Factory worker earnings[4]			
Average hours worked	103	+ 1.0	− 0.7
Average hourly earnings	154	+ 1.0	+ 6.2
Average weekly earnings	159	+ 2.0	+ 5.4
Construction contracts awarded[5]	206	− 6.7	−18.0
Department store sales[2]	129[a]	− 1.5	+ 4.9
Consumers' price index[4]	118	+ 0.2	+ 2.9
Wholesale prices[4]			
All commodities	116	+ 0.3	+ 4.4
Farm products	89	+ 0.8	+ 6.9
Foods	103	− 0.5	+ 5.0
Other	125	+ 0.3	+ 4.0
Farm prices[3]			
Received by farmers	87	+ 1.2	+ 6.1
Paid by farmers	116	0.0	+ 4.5
Parity ratio	82[d]	+ 1.2	+ 2.5

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for November, 1956; comparisons relate to October, 1956, and November, 1955. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957 Jan. 26	1957 Jan. 19	1957 Jan. 12	1957 Jan. 5	1956 Dec. 29	1956 Jan. 28
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,702	1,654	1,708	1,483	1,020	1,737
Electric power by utilities mil. of kw-hr.	12,410	12,556	12,327	11,671	11,196	11,512
Motor vehicles (Wards) number in thous.	168	168	167	102	112	162
Petroleum (daily avg.) thous. bbl.	7,396	7,431	7,396	7,417	7,392	6,994
Steel 1947-49 = 100	143	143	146	145	135	143
Freight carloadings thous. of cars	666	657	681	562	488	692
Department store sales 1947-49 = 100	96	100	107	93	112	94
Commodity prices, wholesale:						
All commodities 1947-49 = 100	117.0	116.7	116.3	116.3	116.3	111.9[a]
Other than farm products and foods 1947-49 = 100	125.2	124.9	124.7	124.6	124.7	120.4[a]
22 commodities 1947-49 = 100	91.3	92.3	92.0	92.5	92.6	88.8
Finance:						
Business loans mil. of dol.	30,349	30,595	30,753	31,137	31,313	26,211
Failures, industrial and commercial number	258	278	256	222	174	284

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for January, 1956.

RECENT ECONOMIC CHANGES

Production Up Moderately

Industrial production finished the year 1956 about 2 percent above where it began. The year was marked by virtual stability in output of nondurable goods and minerals, with most of the movement in total production a reflection of volatility in durable goods. During the first half of 1956 output of durables tended moderately downward as growth in production of machinery and other commodities associated with the capital goods boom was more than offset by a sharp decline in transportation equipment, particularly autos, and by lesser declines in primary and fabricated metal products. In the second half, after the steel strike, most of the lines that were declining earlier in the year moved upward.

For the year as a whole industrial production averaged 143 (1947-49 = 100), up 3 percent from 1955's average. This was down 1 point from the December, 1955, volume, reflecting the leveling in output last year. In contrast, general strength in most lines carried 1955 output up 12 percent from the 1954 recession low.

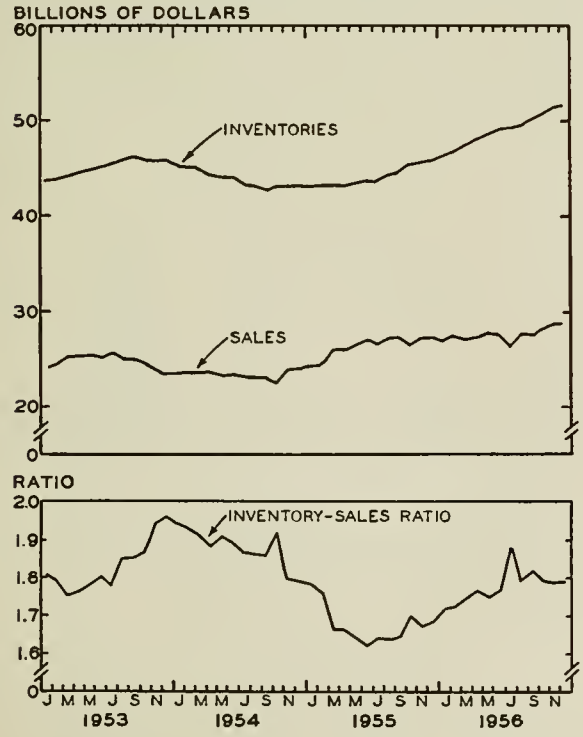
Sales, Inventories Gain

Manufacturers' sales in December were unchanged from the November level of $28.7 billion after adjustment for seasonal factors. Sales of both durable and nondurable goods industries were stable during the month. For the full year, sales totaled $331 billion. This was up 4 percent from 1955, but higher prices accounted for the larger part of the gain.

At the end of December manufacturers' inventories totaled $51.4 billion, an increase of $5.5 billion over December, 1955. About a third of this increase reflected higher replacement costs. In the fourth quarter, book values increased by $1.3 billion, a rate comparable with quarterly changes evident over the past year.

As shown by the chart, the inventory-sales ratio at the end of 1956 was at the early 1953 level. Earlier, the ratio had run above this level as a result of depressed sales during the steel strike. Over the past four years the ratio has displayed the patterns of typical inventory cycles. The previous cycle peaked in 1953, as sales declined. In 1954 the ratio declined as sales leveled off, production was cut back, and inventory liquidation was accelerated. With the recovery in sales late in 1954 and through early 1955, the ratio continued to fall as inventories stabilized. Since mid-1955 output has exceeded sales and carried stocks to new record highs, pushing the inventory-sales ratio to its current level. Both total inventories and their ratio to sales tend to lag behind changes in sales and production by several months.

MANUFACTURERS' SALES AND INVENTORIES
(Seasonally adjusted)



Source: U. S. Department of Commerce.

Savings Advance

Individuals' savings, consisting of liquid assets, pension reserves, and private and government insurance, continued at a high rate in the third quarter. Net of the increase in mortgage and consumer debt, savings amounted to $3.9 billion compared with $2.2 billion in the second quarter and $3.5 billion in the third quarter of 1955, according to estimates by the Securities and Exchange Commission. During the third quarter, liquid savings in securities, mainly corporate issues, moved up most rapidly; checking accounts expanded in contrast to declines in the first two quarters; and private pension and insurance reserves continued at about the same rate as earlier in the year.

In the first nine months of 1956, savings totaled nearly $11 billion, compared with only $6 billion in the same 1955 period. The advance reflects not only increased personal income but also a reduced rate of debt accumulation and a tendency for individuals to save a higher percentage of their income than in 1955. In the first nine months of 1955, mortgage and consumer debt increased by nearly $14 billion, whereas last year it moved up slightly less than $10 billion in this period. Department of Commerce estimates, conceptually more comprehensive than the SEC data, indicate personal saving amounted to 7.2 percent of disposable income in the first three quarters of 1956 compared with 6.2 percent in the like 1955 period. The rise in saving and decline in the rate of debt expansion was largely at the expense of sales of consumer durable goods — primarily autos and houses.

Debt Expansion Slows

The reduced rate of debt expansion in 1956 was not confined to the mortgage and consumer goods market. Estimates for the full year by the Council of Economic Advisers indicate total net public and private debt moved up almost $33 billion, above the average for the postwar period. However, the increase was modest compared with the $52 billion advance experienced in 1955. The increase was confined to the private sector of the economy, since net debt of the Federal government was liquidated to the extent of $6 billion, more than offsetting a further increase of $4 billion in state and local obligations.

Corporations added nearly $15 billion to their outstanding debt in 1956 compared with $19 billion the year

(Continued on page 8)

STOCK MARKET THERMOMETERS

ROBERT W. STORER
Vice-President, Manufacturers National Bank of Detroit

Comparing individual common stocks in terms of their dividend yields or their ratios of market price to earnings is a familiar procedure. We also frequently see statistical records or charts of these quantities over a period of time for individual stocks or for various market "averages." Less well known is the fact that, for such an "average" or cross-section of stocks, yields and price/earnings ratios have in the past varied between such limits as to afford some advance guidance to major movements of the average stock price. For example, normally, over at least the past thirty years, whenever the Standard and Poor's index of 50 industrial stocks has reached a level of 17 or more times its most recent annual earnings, it has thereafter tended to decline; when it has fallen to a point 11 times or less, the stock price index has thereafter tended to rise. Similarly, when yields have dropped below 3.5 percent, stocks have usually dropped, and when they have exceeded 6.6 percent, stocks have usually risen.

Yield and price-earnings ratio can therefore be called *stock thermometers,* measuring roughly the relative degree of market overvaluation or undervaluation of the fundamentals of dividends and earnings. Detailed records of many years are necessary to calibrate such a thermometer for the quantitative readings which would have been most consistent and most timely in their warnings. The quantitative buy and sell indications given above seem to be, on the basis of the record, the best for the particular stock index used.

Seven Measures of Stock Values

The accuracy of forecasting, on a historical and retrospective basis, would have been improved by using additional thermometers to measure overvaluation or undervaluation of stocks. This is true because earnings and dividends can become so abnormally high or low as to give a false indication or none at all. A battery of several such thermometers relates stock prices to additional fundamentals of stock value, such as net worth per share (book value), and the yields on high-grade bonds, which to an extent compete with stock yields. Of the battery of seven such thermometers used by the writer, most are more or less familiar to students of the subject, and the writer can claim originality only in establishing the quantitative buy and sell indications and in combining the results to yield useful warnings of impending *major* turns in the particular stock price average used. These seven thermometers are as follows:

Yardstick I. This is a ratio between actual stock prices and a "fair" value of stocks. The latter is the result of multiplying together three factors: (a) normal dollars-per-share earnings on the stocks in the index, as read off a long-term trend line arrived at after correcting for commodity price inflation, (b) the current

READINGS OF STOCK THERMOMETERS

Major Highs and Lows of Stock Prices (1)		Yardstick Ratios		Price/ Earnings Ratio	Stock Yield %	Bond/ Stock Yield Ratio	Low-Priced/ High-Grade Common Stock Ratio	Market Price/Book Value Ratio	No. of 7 Thermometers Giving Buy or Sell Signals Prior to Turn	TCR Level of Readings at Major Highs and Lows of Stock Prices	No. Months Lag to Market Top or Bottom	
Date	Price	I	II								From 5th Indication	From TCR Signal
Buy Signal at:		.81	.73	11.00	6.60	.50	.90	1.03	b = buy	0.74 + 0.35 cumulative deficiency		
Sell Signal at:		1.29	1.10	17.00	3.48	.70 (.80–to 1940)	1.70	1.60	s = sell cum.	1.21 + 0.70 cumulative excess		
HIGHS												
8-31-29	250.7	2.78s	2.62s	18.66s	3.26s	1.51s	1.74s	3.77s	7s	2.01s	26	24
2-28-37	174.4	1.82s	1.52s	16.67s*	3.77s	.85s	1.61b*	2.22s	6s	1.39s	14	8
12-31-38	130.2	1.29s	1.11s	23.25s	3.32s	.93s	.75b	1.61s	6s	1.21	2	No Signal
5-31-46	184.0	1.22b*	1.22s	26.02s	3.45s	.72s	2.00s	1.77s	6s	1.36s	7	−2
LOWS												
6-30-32	35.1	.47b	.24b	23.88s	10.15b	.54b*	.63b	.36b	6b	.63b	7	1
3-31-38	83.6	.81b	.71b	9.35b	5.64b*	.57b*	.73b	1.03b	7b	.73	1	No Signal
4-30-42	77.2	.61b	.63b	8.69b	8.19b	.35b	.82b	.91b	7b	.60b	7	5
5-31-49	138.3	.60b	.70b	5.67b	6.81b	.40b	.91*	1.02b	6b	.62b	4	2
RECENT												
6-30-56	500.2	1.60s	1.48s	13.04*	3.90*	.84s	.96*	2.18s	4s	1.24 + 0.41	No Signal Given	
7-31-56	526.8	1.69s	1.57s	13.73*	3.70*	.90s	.94*	2.29s	4s	1.30 + 0.50	" " "	
8-31-56	506.7	1.60s	1.51s	13.21*	3.86*	.91s	.99*	2.20s	4s	1.26 + 0.55	" " "	
9-30-56	483.2	1.52s	1.47s	12.92*	4.16*	.87s	1.01*	2.10s	4s	1.21 + 0.55	" " "	
10-31-56	485.6	1.50s	1.48s	12.98*	4.14*	.92s	.98*	2.11s	4s	1.22 + 0.56	" " "	
11-30-56	479.7	1.49s	1.49s	13.43*	4.30*	.88s	.99*	2.09s	4s	1.21 + 0.56	" " "	
12-31-56	498.9	1.55s	1.55s	13.97*	4.14*	.93s	1.00*	2.17s	4s	1.26 + 0.61	" " "	
										Net cumulative excess to date 0.61 points.		

(1) Standard & Poor's 50 industrials at close of each month. 1926 = 100.
* Reading no longer in buy or sell area but cumulative interpretation regards unreversed prior indication as still in effect.
Data are subject to revision as later and more complete statistical figures are available.

level of wholesale commodity prices, and (c) a long-term average ratio of price to earnings of 12.88.

Yardstick II. This is another ratio between actual and "fair" stock prices. It utilizes the observed tendency for the price-to-earnings ratios of the stock index to move inversely to the rate of earnings on the book value or net asset value of the stocks. The ratio of the actual to the "fair" price-to-earnings ratio is the same as the ratio of actual to "fair" stock prices.

Price to Earnings Ratio (actual). This is the conventional simple ratio of actual stock prices to the most recent 12 months' earnings.

Stock Yield (percent). Alone among the seven thermometers, this widely used basis of comparison goes lower the higher the stocks are. As used in this work, it is the total cash dividends paid per share on the stocks in the index during the most recent 12-month period, divided by the market price at the end of the period.

Ratio of Bond Yield to Stock Yield. This is a variant on the simple stock yield, obtained by dividing the yield on Standard and Poor's A1+ corporate bonds by the stock yield. The closer stock yields approach to yields on prime quality bonds, the more competitively attractive the bonds are, in income return, and the more likely are stocks to be overpriced.

Ratio of Low-Priced to High-Grade Common Stocks. This is the ratio between two of the Standard and Poor's stock price subindexes, one of 23 low-priced stocks and the other of 13 high-grade issues. In past periods of business and speculative optimism the former has tended to outrun the latter, for various reasons. The converse has also prevailed during depressions.

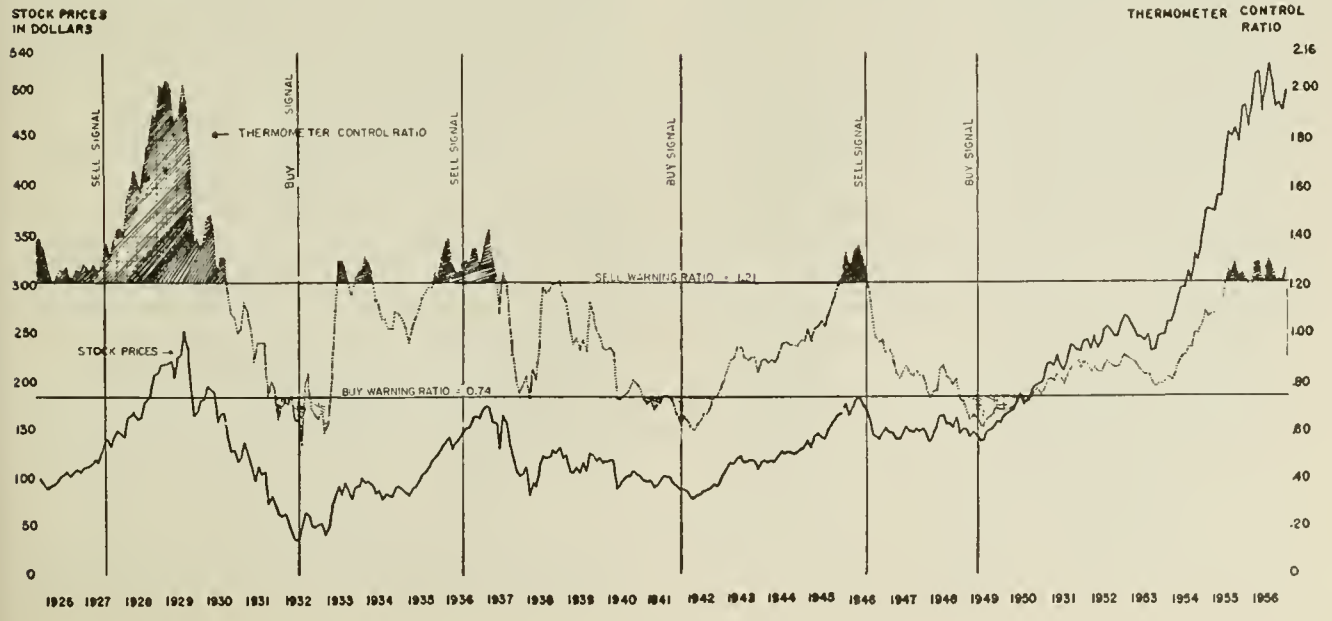
Market Price to Book Value Ratio. Over the years, most companies will reinvest substantial amounts of retained net earnings and thus add to their earnings and dividends as well as to the net asset value (book value) of their stocks. The latter figure is a fairly stable measure of economic value, above and below which the market price tends to fluctuate. The ratio is obtained by dividing the stock price at the close of each period by the preceding year-end book value per share of stock.

The buy indication and sell indication for each of these thermometers are listed near the head of the accompanying table. When a thermometer has risen above its sell indication point, it is regarded as giving a sell indication until it has *reversed* by moving to or below its buy indication point, though it may long remain in neutral territory between these two points. Hence, at all times, the total number of buy and sell indications is seven. Historically, the best market results would have been gained by selling when the number of sell indications increased from a smaller number to five or more, and buying when the number of buy indications increased from a smaller number to five or more. It must be frankly admitted that numerous minor and some major stock price movements have been preceded by fewer indications; this fact may reflect the limitations of this approach, and the force of intangibles such as the approach of war or the impact of mass sentiment.

Combining the Seven Thermometers

A *second approach* uses the month-by-month *quantitative* readings of the seven thermometers, by relating each series to its own long-term (1926-54) average. The resulting series of seven index numbers for each month is then averaged to yield a figure which, by its construction, represents *where stocks are selling, relative to where they "should" be selling,* on the basis of the long-term relationships between stock prices and the fundamental sources of value used. They "should" sell at 1.00 on this scale, which we term the Thermometer Control Ratio or TCR.

Buy and sell signals have been worked out for this TCR; these are also shown in the table. It was empirically determined that the reaching of a set sell or buy indication level by the TCR in any month was not a sufficiently dependable guide; it required confirmation by accumulating, month by month, a total excess over, or a deficiency below, a "warning" reading. When the TCR has reached a level of 1.21, equivalent to a 21 percent overvaluation of the fair value of stocks under then-prevailing conditions of earnings, dividends, bond yields, book values, and so forth, we start to accumulate from month to month the excess over 1.21. A TCR reading of 1.26 in the ensuing month would show an excess of 0.05, and, say, 1.24 in the succeeding month would raise this to 0.08 and so on. The TCR major *sell* signal has been empirically set at an accumulated *excess* of 0.70. Simi-



larly, the "warning" ratio prior to a major *buy* signal is 0.74, with an accumulated *deficiency* in month-to-month TCR readings of 0.35. Thus, the record indicates that since 1926, stocks have never long continued to be substantially overvalued by more than 21 percent or undervalued by more than 26 percent (1.00 minus 0.74).

The accompanying chart sets forth the month-by-month records of the stock price index and of the TCR, showing also the sell warning ratio of 1.21, the buy warning ratio of 0.74, and the areas of accumulated excess of TCR readings above the former and below the latter. Vertical lines mark the dates when TCR major sell and buy signals were given on this basis.

Supplementing the Thermometer Controls

By reason of inevitable changes in the structure of the economy and in the financial relationships which reflect such changes, it would be most unrealistic to depend heavily upon this or any other analytic system derived solely from historical data. This is true for (at least!) two reasons. Speculative and even investment decisions are not and cannot be *wholly* rational. Anyone is free to place any interpretation he wishes on past and present facts, or to disregard the record. Feelings about money tend to reflect both anxiety and avarice.

Most of us feel uncertain enough about future prices to seek corroboration of our judgments by others. Thus, the impact of mass psychology on stock prices is most important; stocks may be decidedly overvalued or undervalued for some time, and they may undergo fairly wide price swings without apparent justification from the rational fundamentals of value.

Moreover, as the economy evolves over time, the financial institutions, the tax rates, the investment relationships involved, also change. Hence, dependent as we are on historical data, we cannot be confident that even the most factual statistics of the past will prove a dependable guide to the future. Systems necessarily built on hindsight often fail when put to work in forward time.

The system described here, though based on thirty years of hindsight, has been operating in forward time only for two years. It is thus unproven, though it appears correct in *not* having given a major sell signal.

For well over a year, four thermometers have been giving sell indications, one less than the number most useful as a major sell signal. Two of the thermometers which are still some distance away from giving a sell indication are *stock yield* and *price/earnings ratio.* These are based on the latest available data for earnings and dividends. Both gave false selling indications in 1932-34, because earnings and dividends were abnormally low. It is conceivable — though it would be historically unprecedented — that present earnings and dividends are so abnormally *high* that one or both of these thermometers may be in a sense "prevented" from giving the fifth sell indication needed to constitute a major thermometer sell signal. If earnings should decline, prices may fall with them, so that no signal would be recorded. This, however, is pure surmise.

The TCR has been above the warning ratio of 1.21 in practically all months since June, 1955, and has accumulated an excess of 0.61, just 0.09 short of the 0.70 required for a major TCR sell signal. This narrowing of the gap does not necessarily mean that a signal is imminent; and the additional elements of variation between signal and actual market setback require considerable exercise of judgment on the part of the investor for best results.

The Federal Reserve's Responsibility

(Continued from page 2)

concerns generally, as compared with large — seems hardly better founded than would be expected in any other circumstances where shortages and cost increases were being encountered.

Whatever the merits of contentions on one side of this issue or the other, the question of interest here concerns what the FRB may have contributed to the present difficulties. A review of its actions indicates extreme caution throughout this period. It talked tight money, and urged restraint in borrowing and spending, but was careful to to do nothing to precipitate a downturn. In the early stages of recovery, the business advance was permitted to progress unrestrained and even welcomed as a measure of the success of the easy money policy initiated in the summer of 1953. After the spring of 1955, rediscount rates were raised by stages from 1½ percent in April, 1955, to 3 percent in August, 1956. In each case, however, the market rate on Treasury bills had come up to the level established earlier before a new advance was made. At the end of 1956, the rediscount rate was being held stable even though the bill rate rose almost a quarter percent above it. Throughout this period, currency in circulation was permitted to advance slowly, as called for by higher incomes and business activity. Federal Reserve credit was held almost constant, but tilted upward rather than down. In view of the expansion in business volume and prices during this period, there appears to be sound justification for Chairman Martin's statement that "If any errors were made, they were on the side of easy money."

Those who are inclined to blame the FRB for present difficulties should reconsider: The facts indicate that the FRB has done nothing to warrant an accusation. It neither condoned excessive borrowing and spending that tightened the market nor took away any of the resources otherwise available to those engaging in such activities. The financial stringency now being encountered could have been avoided only if the FRB had made an even greater volume of credit available to feed the boom. To blame it for not doing this is in effect to charge it with being guilty of failing to take positive action to undermine its own functions.

The present widespread belief in the FRB's "responsibility" suggests that it will be blamed again, at a later date, for any adverse new developments. Whether such future charges will be more realistic than the present ones remains to be shown.

VLB

Recent Economic Changes

(Continued from page 5)

before. Rising interest rates induced firms to draw heavily on internal funds in order to meet their working and fixed capital requirements, but reduced profits coupled with higher dividend disbursements and sacrifice of liquidity positions led to a substantial increase in corporate security issues and large bank borrowings.

In the noncorporate sector, new borrowing, amounting to $20 billion, was $6 billion less than in 1955. Mortgage debt for the full year rose by $13 billion, more than a billion under 1955; commercial and financial debts of about $2 billion — incurred with banks and brokers to carry securities and with life insurance companies on policy loans — were about half the 1955 increase; and consumer indebtedness rose by $3.4 billion, about $2 billion less than in 1955.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Tips on Packaging

With the increasing importance of self-service distribution, packaging has become a major profit factor in business. *The Selling Power of Packaging* by Vernon L. Fladager, specialist in the promotion and advertising field, discusses what the businessman should know about packaging in order to utilize its possibilities more fully. This book is available for $3.50 from McGraw-Hill's Book Information Service, 327 West 41st Street, New York 36, New York.

Efforts to produce a packing-case liner that can withstand all types of climatic conditions resulted in a fungicide-treated industrial paper material that is waterproof and grease-resistant. The producer, Cincinnati Industries, Inc., Lockland, Cincinnati 15, Ohio, used polyethylene to form a moisture barrier. It is laminated between two plies of X-Crepe N, a heavy duty paper with all-directional stretch; then another coating of polyethylene is applied on the inside, and a fungicide coating is applied on the exterior side.

The use of plastics in merchandising is the theme of the *1957 Guide to Improved Packaging,* an eight-page pictorial booklet. Topics covered are films; molded and extruded containers; adhesives, coatings, and laminations; and packages, signs, and displays. Copies of this free booklet are available from the Bakelite Company, 30 East 42nd Street, New York 17, New York.

Trends in Produce Transportation

Longer trips and increased use of trucks as carriers are current trends in produce transportation, according to the United States Department of Agriculture. Markets have drawn on production areas that are increasingly farther away as the problem of fresh produce spoilage has diminished with greater truck and rail speed and improved refrigeration techniques. Although the average length of haul has not increased for all fresh fruits and vegetables, several produce items for specific cities have had significant increases. The average 1955 haul length of celery by rail and truck to New York City was up to 1,604 miles, a gain of 43 percent over 1941. Potatoes and tomatoes showed gains of 56 percent and 35 percent. Apples, tomatoes, and celery showed the largest average haul length increases for selected produce marketed in Chicago, with gains of one-third, two-fifths, and two-thirds respectively.

Improved highways and equipment, faster over-the-road service, and less handling are factors promoting truck transportation. Railroads have countered by speeding up the movement of refrigerator cars and by introducing piggyback service. Even so, total rail shipments of produce from Florida remained relatively stable between the 1946-47 and 1954-55 growing seasons, whereas truck shipments more than quadrupled. With California produce traveling across the country to markets, rail was still the principal mode of transportation. But here, too, trucking has gained, its portion of total shipments having increased from 12 percent in 1951 to 17 percent in 1954.

Tax Guide

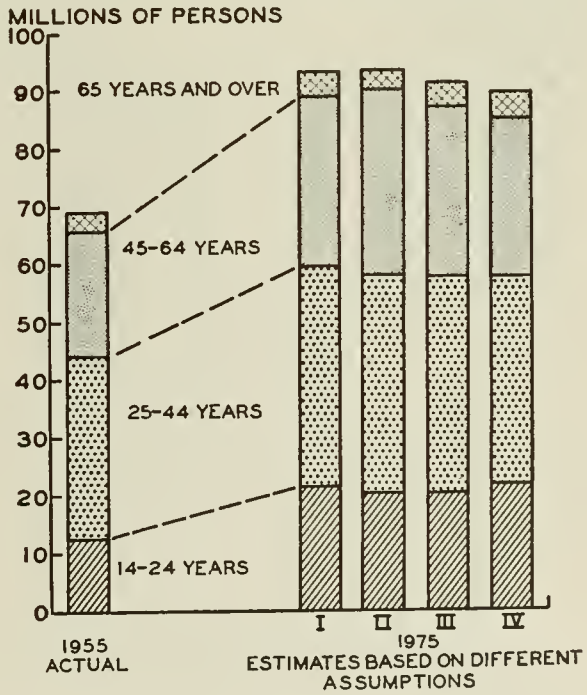
A new source of tax information for the small businessman is the first edition of the *Tax Guide for Small Business;* current plans call for annual revised editions. This booklet is an attempt to provide answers to Federal tax problems resulting from the establishment of a new business, the operation of a going business, or the closing out of a business. It discusses the Federal income tax, Federal employment tax, and Federal excise tax problems of sole proprietors, partnerships, and corporations. Copies of this booklet are available for 30 cents from District Directors of Internal Revenue, field offices of the Small Business Administration, or the Government Printing Office, Washington 25, D. C.

Labor Force Projections

Increases ranging from 30 to 36 percent above the total 1955 labor force of 68.9 million persons have been estimated for 1975 by the United States Bureau of the Census. The four projections (see chart), utilize various assumptions about changing labor force participation in specific age groups, but a single set of population projections. Other assumptions tend to hold down expansion of labor force activity for particular age groups. The first is that school and college enrollment will continue to increase in absolute numbers as well as in proportion of the age groups affected; second, marriage rates at early ages and birth rates will continue at high levels; and third, the long-term downward trend in the employment of men past 65 will continue. Over-all population increases for the 20-year period will more than offset these contracting influences.

Rates of labor force increases will vary between 1955 and 1975 with lower rates during the first part of the period and higher rates expected during the latter years. Primary influences are the first two contracting assumptions listed above.

UNITED STATES LABOR FORCE, 1955 AND 1975



Source: Bureau of the Census, *Current Population Reports,* Series P-50, No. 69.

LOCAL ILLINOIS DEVELOPMENTS

In general, Illinois business in December was more active than during the preceding month. Small gains were recorded for all indicators with the exceptions of coal production and department store sales, which declined slightly.

Comparisons with December, 1955, showed substantial gains in farm prices received, life insurance sales, and business loans extended by leading Chicago banks. On the other hand, coal production declined more than 15 percent.

Popular Seedling

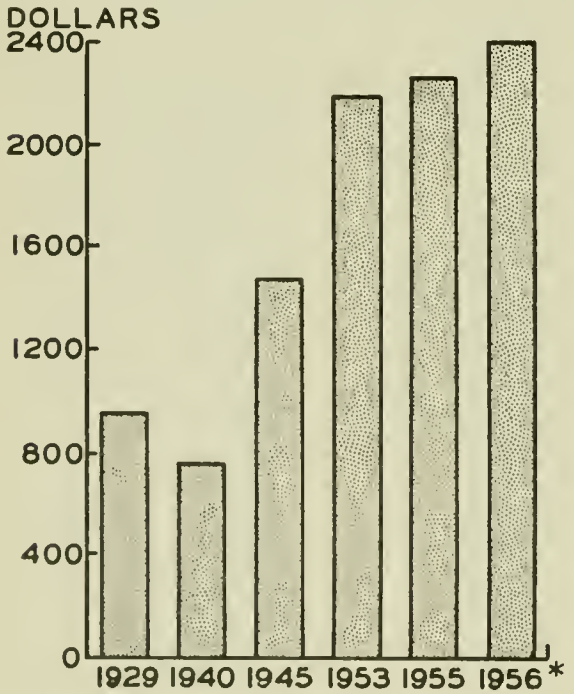
The multiflora rose is topping the nursery order list of the Illinois Department of Conservation. State Forester E. E. Nuuttila reports that the rose's popularity among farmers and conservationists is due to its dense growth and thorns rather than to its blossom. The most common use of the shrub is as a fence. When planted 12 to 18 inches apart, the bushes can develop into a wall about eight feet high and equally thick. As a "living fence," the rose discourages livestock and serves as cover for wild game. It is high enough to act as a wind break, yet its root system does not rob adjacent crops of soil nutrients as the Osage orange has a tendency to do.

The Highway Division has planted the shrub along the right-of-ways of some state highways to serve as cushions in the event of car accidents and to help control soil erosion. Farmers have been encouraged to allow the Division to plant beds of the rose about 100 feet back from the pavement for use as permanent snow fences.

Personal Income

Illinois personal income established a new high of nearly $21 billion in 1955, according to the United States Department of Commerce, and continued on to new records in 1956. The 1955 figure represented a gain of 6 percent over the previous high in 1954. Of the 1955 total personal income, $20.3 billion was from nonfarm sources. Thus farm income accounted for less than 5 percent of personal income in the State.

ILLINOIS PERSONAL INCOME PER CAPITA



*Estimated.
Source: U. S. Department of Commerce.

Retaining its third place rank among the states, Illinois was preceded by New York and California. However, Illinois ranked eighth among the states on the basis of per capita income, having an average of $2,257 during 1955. This average established a new high with a gain of $72 over the previous high recorded in 1953 (see chart). The estimated 1956 figure exceeds both of these years. Always ranging well above the national average, per capita income in Illinois continued to exceed it by about one-fifth during the past year.

Residential Water Use

The installation of water-using appliances such as dishwashers, food-waste disposers, and automatic and conventional washing machines has been an important factor in the large increases of water used in the Illinois home. A report prepared by Ross Hanson and H. E. Hudson, Jr., of the State Water Survey Division, *Trends in Residential Water Use,* indicated that this factor in addition to the changing number of persons per household unit and the increasing proportion of the urban population that has running water service must be considered carefully in planning public water-supply systems.

Although each community is faced with a different supply problem, the installation of water-using appliances has been concentrated in the higher income communities, generally the larger ones in Illinois. These communities have frequently shown large increases in residential water use without corresponding increases in population, whereas similar per capita gains have not been noted in the smaller communities.

In order to obtain more accurate estimates of community water use, as compared with the current 100 gallons per capita per day method, the authors have suggested a residential per capita and/or per water service connection figure plus a commercial water-use figure on a per service connection basis. Industrial use figures have little meaning on a per capita basis.

Potential Soil Builder

Tree bark, normally considered to be waste material, has been converted into an inexpensive and effective soil builder. Dr. C. Roland McCully, scientist at the Armour Research Foundation of the Illinois Institute of Technology, has stated that the bark soil builder loosens the soil and improves its moisture-holding capacity, serves as a base for fertilizer, and controls the rate at which plants obtain food from the soil. Plant nutrients and the bark compound can be mixed and worked into the ground in one operation.

Several tests were conducted to study the merits of the bark product. In sand, the product gave 46 percent more growth than fertilized controls, 92 percent more than peat moss additions, and 134 percent more than sand with the addition of synthetic exchange resins. In clay, the product gave 120 percent more growth than the fertilized controls and 28 percent more than clay with soil conditioner added. Although the bark soil builder is not yet a finished product, Dr. McCully stated that it has great potential for increasing plant growth at smaller costs.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1956

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$27,021[a]	1,147,342[a]	$577,208[a]		$15,548[a]	$18,396[a]
Percentage change from Nov., 1956	n.a.	+3.4	+5.7	+36	+1.3	+23.7
Percentage change from Dec., 1955	+71.3	+5.5	+2.0	+ 3	+0.3	
NORTHERN ILLINOIS						
Chicago	$19,142	877,973	$419,579		$14,186	$16,032
Percentage change from Nov., 1956	−8.2	+3.4	+5.8	+36	+1.3	+22.5
Percentage change from Dec., 1955	+65.5	+6.3	+2.1	+ 2	+0.0	
Aurora	$ 312	n.a.	$ 8,853		$ 65	$ 159
Percentage change from Nov., 1956	−46.7		+7.5	+35	−1.4	+25.1
Percentage change from Dec., 1955	+116.7		+11.5	+ 5	+5.5	
Elgin	$ 517	n.a.	$ 6,187		$ 41	$ 120
Percentage change from Nov., 1956	+23.1		+0.8	+21	−1.7	−1.9
Percentage change from Dec., 1955	+345.7		+4.2	0	+6.7	
Joliet	$ 390	n.a.	$12,843		$ 82	$ 137
Percentage change from Nov., 1956	−58.1		+8.5	+40	−2.8	+42.3
Percentage change from Dec., 1955	+290.0		+6.3	+ 4	+1.6	
Kankakee	$ 79	n.a.	$ 4,981		n.a.	$ 60
Percentage change from Nov., 1956	−64.6		+3.8	n.a.		+35.3
Percentage change from Dec., 1955	+6.8		−10.8			
Rock Island-Moline	$ 454	22,909	$ 9,357		$ 96[b]	$ 194
Percentage change from Nov., 1956	−48.0	+14.5	−3.9	n.a.	−4.0	+46.8
Percentage change from Dec., 1955	+90.8	−8.1	−6.8		+0.6	
Rockford	$1,813	43,301	$18,818		$ 189	$ 266
Percentage change from Nov., 1956	+57.5	+0.7	+4.8	n.a.	+5.1	+28.9
Percentage change from Dec., 1955	+88.5	+9.6	−1.2		+2.3	
CENTRAL ILLINOIS						
Bloomington	$ 590	8,434	$ 5,778		$ 63	$ 97
Percentage change from Nov., 1956	+324.5	+9.7	+8.0	n.a.	+7.1	+9.4
Percentage change from Dec., 1955	+7.1	+5.2	+1.9		−13.2	
Champaign-Urbana	$ 429	10,994	$ 8,174		$ 70	$ 131
Percentage change from Nov., 1956	+18.8	+4.1	+3.0	n.a.	+5.4	+31.0
Percentage change from Dec., 1955	+180.4	+1.4	−0.1		+11.7	
Danville	$1,415	11,621	$ 6,891		$ 55	$ 80
Percentage change from Nov., 1956	+747.3	+1.8	+8.2	+39	+1.0	+33.6
Percentage change from Dec., 1955	+555.1	+10.9	+2.1	+ 3	+4.5	
Decatur	$ 478	33,691	$12,166		$ 120	$ 131
Percentage change from Nov., 1956	−24.4	+3.7	+2.8	+33[c]	−0.0	+30.5
Percentage change from Dec., 1955	−35.1	+3.0	+2.3	+ 1[c]	−0.5	
Galesburg	$ 62	8,482	$ 4,451		n.a.	$ 46
Percentage change from Nov., 1956	−58.4	+9.8	+0.9	n.a.		+37.3
Percentage change from Dec., 1955	−38.0	+7.8	+1.9			
Peoria	$ 805	53,185[c]	$18,820		$ 229	$ 363
Percentage change from Nov., 1956	+6.6	+1.1	+5.7	+34[c]	+1.6	+38.2
Percentage change from Dec., 1955	+186.5	+2.6	+1.9	+ 3[c]	+2.1	
Quincy	$ 62	9,638	$ 5,341		$ 42	$ 83
Percentage change from Nov., 1956	−87.8	+3.2	+10.7	n.a.	+0.4	+27.7
Percentage change from Dec., 1955	−55.1	+6.1	−0.2		+5.4	
Springfield	$ 237	34,330[c]	$14,878		$ 121	$ 298
Percentage change from Nov., 1956	−17.7	+2.4	+10.2	+45[c]	+1.4	+38.0
Percentage change from Dec., 1955	+54.9	+1.7	+7.9	− 2[c]	+3.1	
SOUTHERN ILLINOIS						
East St. Louis	$ 68	11,804	$ 9,710		$ 151	$ 86
Percentage change from Nov., 1956	n.a.	+7.3	+3.0	n.a.	−0.7	+67.1
Percentage change from Dec., 1955	−54.7	−7.3	+0.5		+13.5	
Alton	$ 101	13,574	$ 5,314		$ 39	$ 50
Percentage change from Nov., 1956	+55.4	−0.5	+12.5	n.a.	−0.1	+66.0
Percentage change from Dec., 1955	+18.8	+5.9	+3.0		−11.9	
Belleville	$ 67	7,405	$ 5,067		n.a.	$ 63
Percentage change from Nov., 1956	−91.5	+2.9	+1.5	n.a.		+33.6
Percentage change from Dec., 1955	+644.4	+3.7	+4.5			

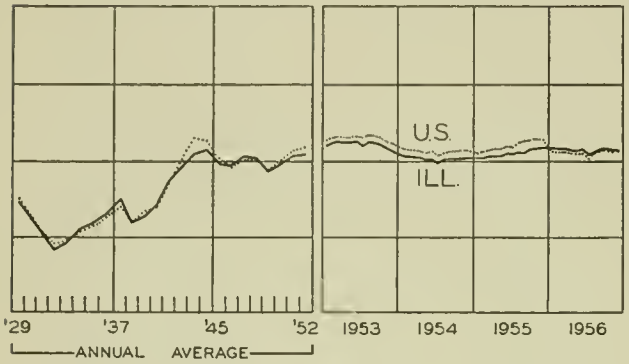
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for October, 1956. Comparisons relate to September, 1956, and October, 1955. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending December 14, 1956.

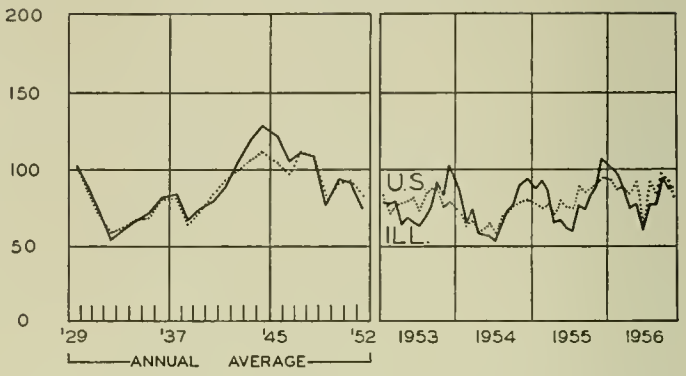
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

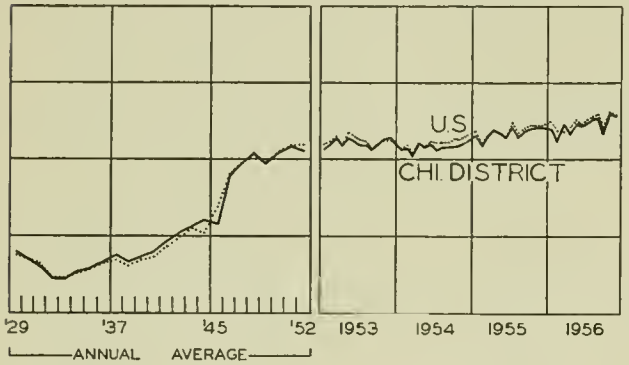
EMPLOYMENT-MANUFACTURING



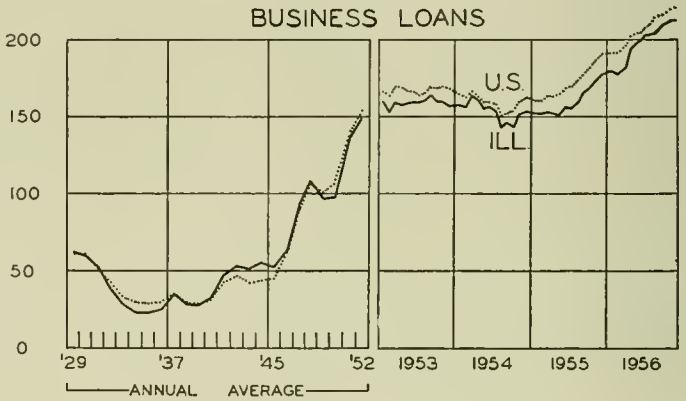
COAL PRODUCTION



DEPARTMENT STORE SALES



BUSINESS LOANS



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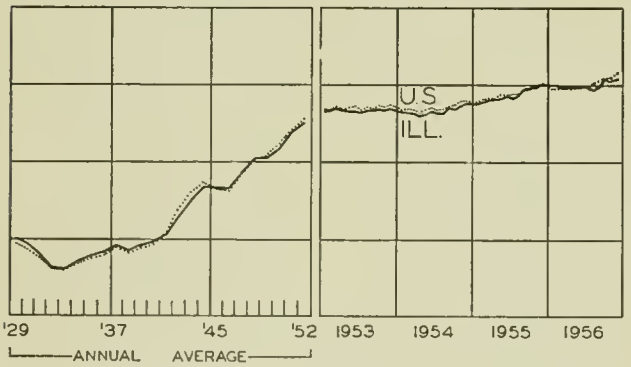
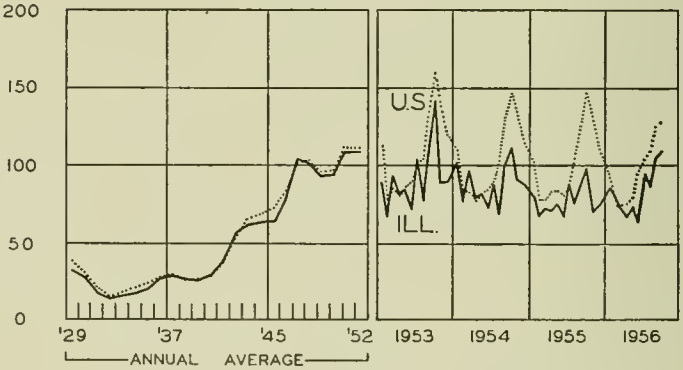
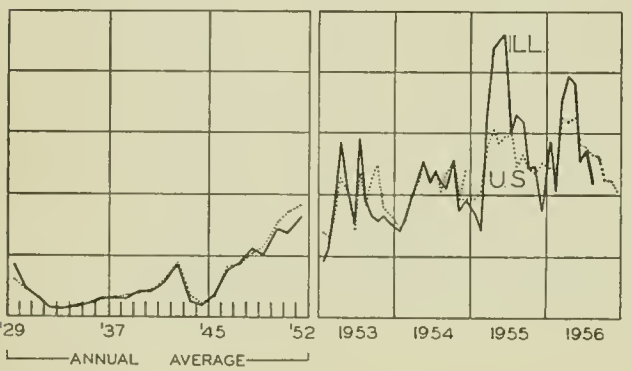


CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



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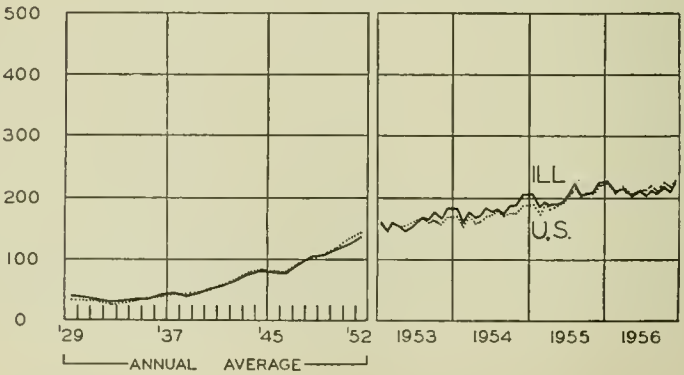

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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HIGHLIGHTS OF BUSINESS IN FEBRUARY

Additional signs of weakness in the economy appeared in February, although these were still sufficiently scattered to leave most government and business circles uncertain as to whether inflation or deflation is the more immediate danger. The House-Senate Economic Committee called for a cut in government spending to curb inflation, but the Federal Reserve Board indicated that it had switched from a policy of active restraint to one of passive waiting.

The index of industrial production, which fell one point in January to 146 (1947-49 = 100) on a seasonally adjusted basis, will probably show a further decline in February. Auto output dropped 2.4 percent, after allowance is made for the two fewer production days in the month. The weekly average of steel production was about the same for February as for the previous month, as was that of bituminous coal. But some firms were cutting back on steel output at the end of the month and fears were expressed that further cuts were in the offing.

Freight carloadings were still running below those of last year. Department store sales were down from January and for the first two months of 1957 were only 2 percent above the same period in 1956. Reports indicated that the number of unsold new cars in the hands of auto dealers had climbed to about 750,000 by the end of February, with sales running about 5 percent below 1956.

Construction Expenditures Down Again

February outlays on new construction declined seasonally to $2.9 billion, 6 percent below January but 2 percent above February last year. With allowance for seasonal factors, expenditures during the first two months of 1957 were at an annual rate of $44.7 billion.

Private construction accounted for $2.1 billion of the total, a drop of 5 percent from January but the same as a year ago. New private housing outlays fell 9 percent in February and were down almost as much from February, 1956. Store construction was down from January and a year ago, but for the first two months of this year outlays for industrial plants, office buildings, churches, schools, hospitals, and public utilities were at record levels. Expenditures by public authorities in February were well below January, but were still 9 percent above a year ago.

The first monthly compilation of construction contracts awarded which covers all 48 states showed an increase of 4 percent in January over the same month last year. Most striking was the reported rise over the year of 32 percent in manufacturing construction awards, whereas heavy engineering contracts declined 9 percent. Home building contracts in the same period increased 1 percent in dollar terms, but dropped 9 percent in number of units.

Manufacturers' Sales Up

January saw a rise in sales by manufacturers to $28.7 billion, 9 percent above the same month last year and 1 percent above December, after allowing for seasonal factors. Manufacturers' inventories changed little between December and January, leaving them 11 percent above a year ago. New orders of $28.6 billion, on a seasonally adjusted basis the same in January as in the preceding month, were 4 percent higher than in January, 1956. Unfilled orders, mainly in the durable goods industries, were still about 10 percent above last year.

Most of the seasonally adjusted increase in sales over December came in nondurable goods. Declines in sales of transportation equipment mostly offset sales increases by primary metal and machinery producers in the durable-goods industries.

Consumer Debt Down

During January consumer debt declined seasonally about $1 billion to $40.9 billion. Installment debt accounted for little more than a quarter of the decrease, although it makes up more than three-quarters of the total; with seasonal adjustment it showed an increase for the month of $228 million.

The seasonal drop in noninstallment debt was largely the result of reductions in charge accounts. Another decrease in auto paper outstanding and a decline of $201 million in other consumer goods paper accounted for most of the fall in the unadjusted installment debt total.

Business Spending to Rise

The 1957 Commerce Department-SEC survey of business investment plans indicates that entrepreneurs expect to spend $37.4 billion on new plant and equipment this year, about 6.5 percent more than in 1956. Big increases in expected outlays over actual 1956 expenditures by railroads, public utilities, and manufacturing concerns account for most of the rise, offsetting anticipated declines by commercial and mining firms.

THE FEDERAL BUDGET FOR 1958 · · By Jesse Burkhead · · Page 6

ILLINOIS BUSINESS REVIEW

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The Population Boom

In the sustained increase of population the current situation is distinctly different from that of the late 1920's. In the twenties, marriage and birth rates began to fall long before the business collapse of 1929. Recently, marriages have fallen, largely because there are no longer enough unmarried adults to sustain them, but births have been maintained at a peak of 4 million.

The baby boom, as it is commonly called, is presumed to have profound consequences for the economy. The rate of increase is often assumed to continue indefinitely. It is even regarded as an element of inflationary pressure, on a refurbished theory of the Malthusian specter, in which population again threatens to run ahead of our capacity to produce.

Social Aspects of the Baby Boom

The baby boom is not a separate and distinct element in the situation, to be considered in isolation from everything else. It fits nicely into the postwar ideal of the best pattern for family living: a home in the suburbs, with all kinds of mechanical gadgets, cars for pleasure as well as business, and television to bring entertainment services from the big city to the consumer. People who strive for all this want their children to have the best.

The high rate of births is not confined to any particular social class or age group. It gains magnitude from the teen-agers, who seek marriage at ever-earlier ages. The average age at marriage has fallen to a near irreducible minimum; the average age at birth of first child is also extremely low; and the time-spacing of children has been reduced sharply.

There can be no doubt that the bars of social restraint have at least temporarily been lowered. Parents condone early marriages for their children. They support them through high school and college years while married. Military manpower policies also encourage early marriage: conditions of service and benefits to dependents combine in removing the obstacles to marriage for servicemen. In most communities, public assistance is provided to mothers with dependent children in the event that their income is otherwise inadequate.

Explaining the Urge to Reproduce

High prosperity has contributed the economic basis for family building. In the Great Depression, the birth rate fell with everything else. Today, incomes are higher than ever before, and high incomes are conducive to costly investments. People can now feel that they will be able to support more children at the standard of living they believe to be satisfactory. The excitement of living well and feeling able spurs the urge to reproduce. That this hypothesis does not tell the whole story may be seen in the failure of the late 1920's to provide the same stimulus.

Other forms of stimulation may also be important. The uncertainty and excitement of disturbed international conditions may be viewed as a contributing factor. The threat of atomic destruction hangs over the entire community. Through idealistic discussions of foreign policy as well as through the lurid descriptions of science fiction, it infiltrates the minds of impressionable teen-agers; and the actions of elders who have fled the cities to set up homes outside the potential centers of destruction are not lost upon them. People who fear the loss of loved ones may seek, perhaps unconsciously, to protect themselves by adding replacements for those whose loss is threatened.

A different explanation following the same approach is provided by Professor Sorokin's book, *The American Sex Revolution*. He decries the emphasis on sex in entertainment and advertising, particularly television, and cites divorces, crimes, and illegitimate births as aspects of the nation's "sex obsession."

Whatever the causes that account for the urge to reproduce, there is no doubt that in the postwar period they found conditions suitable for maximum results. The subnormal rates of marriage and childbearing in the 1930's created a large backlog of young adults without children. Marriages reached an extreme peak just after World War II, and the newly created families have generally wanted more than one child. Births rose to a peak in 1954-56. The rate was as high as one out of four for women in the peak fertility years of their early twenties — implying that close to half of the married women in these age groups were pregnant at least part of the time in each of the last three years. The very fact that family building was so prevalent may well have produced an emulative reaction resulting in more of the same.

Why the Birth Rate Will Fall

The Census Bureau's top projection of the population to 1975 assumes the maintenance of the recent peak fertility rates by age group. The Bureau also gives three alternative projections, based on assumptions of lower fertility. All four assume the continuation of full employment. None could be described as a pessimistic assumption for future birth rates.

These projections are discussed by Director Burgess in the National Industrial Conference Board's *Business Record* for August, 1956. In the same issue Director Whelpton of the Scripps Foundation takes issue with some of the Bureau's assumptions. He points out that reductions in age at marriage and at first birth accounted for about 4 million births in the decade from 1946 to 1955. This was a temporary increase that cannot persist.

The primary objection to the Census procedure is that it assumes that women now having children in their twenties will continue having children in their thirties at the same rate as those now in their thirties. This disregard of the number of children they have already had in calculating future rates of childbearing is unrealistic.

It seems more likely that marriages and births have pretty well used up the backlog existing at the end of the war. Because of the small numbers coming of marriage-

(Continued on page 8)

THE EXPANDING NONFERROUS FOUNDRIES

Standing in the economic shadow of the iron and steel foundry is its smaller brother, the nonferrous foundry. Gone, however, is the status of insignificance which characterized the latter in its infancy during pre-World War II years.

Today, the nonferrous foundry is much nearer to the ferrous plant in terms of modernization. With increasing uses for nonferrous metals such as aluminum, copper, bronze, brass, magnesium, and zinc, nonferrous shop owners have turned their attention toward new technical improvements and better production methods developed since 1947. A major objective of the new techniques is to produce precision castings which eliminate the need for costly machining operations.

Technical Improvements

Following World War II, the foundry industry introduced new techniques which are now prevalent. From the hot, dirty, and dark workrooms, most foundries, ferrous and nonferrous, now try to eliminate smoke, dust, and heat through filters and air conditioners. Conveyers have largely replaced wheelbarrows and shovels.

After 1947 a new production technique called shell casting or molding revolutionized the nonferrous foundry industry. Lately, it has been catching on in ferrous plants. For years the standard method of sand mold construction varied little from that used since the origin of foundry art. Indicative of shell molding popularity is the growth in number of Illinois foundries employing it from 15 to 40 between 1953 and 1955.

Shell casting is most advantageous for nonferrous metals, though it is now being used for some ferrous products. The mold consists of a thin shell of resin-bonded sand which can easily withstand the comparatively low melting temperatures of nonferrous metals. Not only does this type of mold produce a high-quality casting, but also the pouring operation can be performed by semi-skilled workers because of the light, easily handled mold.

While shell molding is applicable for metals such as brass and copper, it is seldom used with aluminum, a metal which tends to pick up impurities. To solve this casting problem, aluminum shops resort to die-casting, another rapidly growing technique. This method, by which metal is pressed into a stationary mold, is conducive to mass production. While sand is still employed for heavy castings such as bronze, die castings are used when large numbers of small items are desired.

Another important older casting technique is the investment, or precision, method. Like shell casting, it has blossomed in the past ten years. An expensive process because of the costs of the wax, plastic, or frozen mercury required, it is used for precision items such as jewelry and jet engine parts. The investment method, though not adequate for mass production, is becoming more important because it is being made to produce precision castings up to 200 pounds.

Mechanization and Automation

Many nonferrous shops produce specialty items not suited to mass production. Because nonferrous shops, in the main, are not sufficiently large and nondiversified, automation in this industry has not reached a level comparable to that in the ferrous industry. However, rising costs of production, caused in part by the increasing shortage of skilled labor, have induced nonferrous shop owners to turn toward more mechanization and automation. Despite initial high costs, automatic processes have become essential in meeting competition. Producers of the machinery required have in turn had to expand.

Medium and large foundries, the bigger buyers of equipment, finance most of their purchases from profits and reserves. Although the volume of requests for credit terms by smaller ferrous and nonferrous foundries currently is higher than it has been in two or three years, this tendency to buy on future prospects is based on the good business the industry has enjoyed in recent years. Equipment sales in 1956, for example, ran 7 percent ahead of 1955.

Illinois Development

Illinois moved from fourth to third in exclusively nonferrous foundries from 1953 to 1955. This development is attributed primarily to the use of shell molding. *Foundry* magazine reports that 290 of the State's 485 foundries manufactured only nonferrous castings in 1955. Not included in this group are the numerous nonferrous departments within ferrous foundries.

The number of Illinois nonferrous production workers has decreased from 8,091 to 7,110 but average annual wages have risen 28.2 percent to $4,110 since 1947, according to the *1954 Census of Manufactures*.

In total nonferrous plants, including those also manufacturing ferrous castings, the number of establishments in Illinois has increased 33 percent from 252 to 336 between 1953 and 1955, according to *Foundry* magazine. In the corresponding period, the number of foundries producing ferrous products showed no significant growth. This is because ferrous shops, though fewer, are growing bigger and producing more.

An increase of 57 in the number of aluminum foundries from 1953 to 1955 raised the total to 260, pushing Illinois from fourth to third place in total aluminum castings establishments. Illinois, in 1955, had 92 zinc foundries, only one less than California, which ranked first.

The fruits of mechanization and automation are especially evident in the aluminum and aluminum-base alloy casting establishments. Use of die castings increased total shipments more than 41,000 short tons from 1947 to 1954.

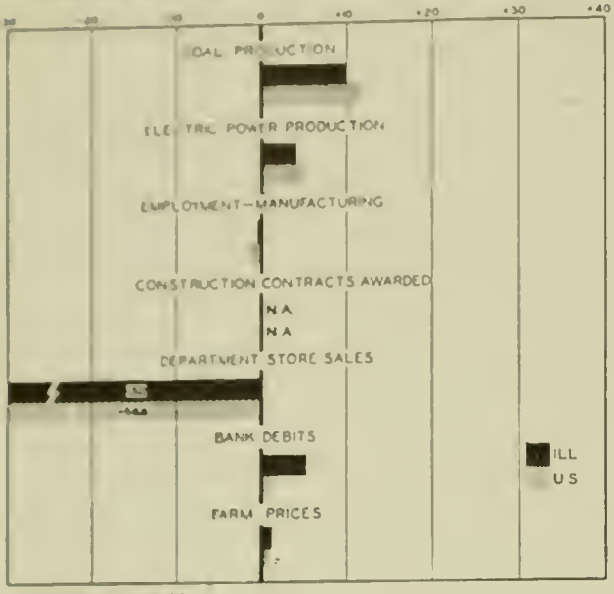
In conclusion, the nonferrous shops have progressed far in the direction of mechanization from the dirty, manual shops of early post-World War II days, and increased costs of production and shortages of labor indicate a continuing trend toward mechanization.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1956, to January, 1957



N A Not available.

ILLINOIS BUSINESS INDEXES

Item	January 1957 (1947-49 =100)	Percentage change from Dec. 1956	Percentage change from Jan. 1956
Electric power[1]	235.3	+ 4.1	+ 3.8
Coal production[2]	96.7	+ 9.9	− 4.2
Employment—manufacturing[3]	107.4	− 0.5	− 1.0
Weekly earnings—manufacturing[3]	156.7[a]	+ 1.1	+ 4.1
Dept. store sales in Chicago[4]	114.0[b]	− 6.6	− 0.9
Consumer prices in Chicago[5]	121.0	0.0	+ 2.5
Construction contracts awarded[6]	n.a.	.....	.....
Bank debits[7]	187.1	+ 5.2	− 0.4
Farm prices[8]	80.0	+ 1.3	+11.1
Life insurance sales (ordinary)[9]	255.4	−13.9	+25.0
Petroleum production[10]	133.5	− 2.1	+ 2.5

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Consumer data, comparisons relate to November, 1956, and December, 1955. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	January 1957	Percentage change from Dec. 1956	Percentage change from Jan. 1956
	Annual rate in billion $		
Personal income[1]	335.2[a]	+ 0.4	+ 5.8
Manufacturing[1]			
Sales	349.2[a]	+ 1.4	+ 7.8
Inventories	51.5[a, b]	+ 0.2	+11.2
New construction activity[1]			
Private residential	12.2	−15.6	− 6.1
Private nonresidential	14.1	− 7.8	+ 6.8
Total public	10.3	− 4.1	+11.7
Foreign trade[1]			
Merchandise exports	23.9[c]	+31.2	+41.7
Merchandise imports	12.5[c]	+ 4.3	+ 4.5
Excess of exports	11.4[c]	+83.0	+132.9
Consumer credit outstanding[2]			
Total credit	40.9[b]	− 2.3	+ 8.1
Installment credit	31.3[b]	− 0.8	+ 8.4
Business loans[2]	30.3[b]	− 3.4	+15.4
Cash farm income[3]	32.7	−15.2	− 0.6
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	146[a]	− 0.7	+ 2.1
Durable manufactures	164[a]	− 1.2	+ 2.5
Nondurable manufactures	130[a]	0.0	+ 0.8
Minerals	130[a]	0.0	− 0.8
Manufacturing employment[4]			
Production workers	107	− 0.5	− 1.1
Factory worker earnings[4]			
Average hours worked	101	− 2.0	− 1.2
Average hourly earnings	154	0.0	+ 6.2
Average weekly earnings	155	− 2.0	+ 4.9
Construction contracts awarded[5]	n.a.	.....	.....
Department store sales[2]	125[a]	− 3.2	+ 0.8
Consumer price index[4]	118	+ 0.2	+ 3.1
Wholesale prices[4]			
All commodities	117	+ 0.5	+ 4.5
Farm products	89	+ 0.4	+ 6.2
Foods	104	+ 1.2	+ 6.1
Other	125	+ 0.4	+ 4.0
Farm prices[3]			
Received by farmers	88	+ 1.1	+ 6.0
Paid by farmers	117	+ 0.9	+ 4.5
Parity ratio	82[d]	0.0	+ 2.5

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for December, 1956; comparisons relate to November, 1956, and December, 1955. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1957 Feb. 23	1957 Feb. 16	1957 Feb. 9	1957 Feb. 2	1957 Jan. 26	1956 Feb. 25
Production							
Bituminous coal (daily avg.)	thous. of short tons	1,642	1,625	1,621	1,463	1,695	1,662
Electric power by utilities	mil. of kw-hr.	11,920	11,946	12,019	12,322	12,410	11,277
Motor vehicles (Wards)	number in thous.	162	170	170	164	168	148
Petroleum, crude (daily avg.)	thous. bbl.	7,567	7,515	7,461	7,422	7,396	7,184
Steel	1947-49 = 100	145	145	144	145	143	141
Freight carloadings	thous. of cars	627	676	665	648	666	687
Department store sales	1947-49 = 100	100	102	101	93	96	97
Commodity prices, wholesale,							
All commodities	1947-49 = 100	116.9	117.0	117.1	116.9	117.0	112.4[a]
Other than farm products and foods	1947-49 = 100	125.4	125.5	125.3	125.2	125.2	120.6[a]
22 commodities	1947-49 = 100	88.5	89.0	89.7	90.7	91.3	88.5
Finance							
Business loans	mil. of dol.	30,347	30,257	30,162	30,260	30,349	26,271
Failures, industrial and commercial	number	300	317	287	320	258	230

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for February, 1956.

RECENT ECONOMIC CHANGES

Housebuilding Decline Continues

Nonfarm housing starts continued downward in January in line with the pattern of decline evident since early 1955. Seasonally adjusted starts amounted to an annual rate slightly in excess of one million units. In January of last year starts were equivalent to a rate of 1.2 million homes and in the same month of 1955 were at a rate of 1.4 million units. This January's total equaled that of last September, when a sharp, one-month decline followed a short-lived spurt in August. Aside from September, the volume of new starts at the beginning of the year was the lowest since January of 1952.

Bond-Stock Yields Gap Closed

The tight money market by year-end had all but eliminated the gap between dividend and bond yields. Demand for funds pushed bond yields to a postwar high, surpassing the earlier postwar peak reached in 1953. However, as shown by the chart, dividend yields were relatively stable throughout 1956, on the average, as stock prices and dividend payments advanced together during the first half and then tended to stabilize or decline after midyear. Also shown by the chart is the fact that during the first three quarters of 1955 the earnings-price ratio continued the downtrend evident since 1953, when the recent bull-market inflation of stock prices got under way. However, the ratio rose moderately in the fourth quarter as prices dropped and earnings increased.

The narrowing of costs between debt and equity issues in the past two years has resulted in some tendency for corporations to shift to stock issues in raising new money. However, about three-fourths of last year's record $11 billion of funds raised by security offerings continued to be in the form of debt issues. Issues to meet new money requirements for plant and equipment increased from $8 billion in 1955 to $9.6 billion last year and issues for working capital rose moderately.

CORPORATE FINANCING COSTS

Source: *Survey of Current Business*, February, 1957.

Gross National Product

Gross national product advanced $10 billion in the fourth quarter to a seasonally adjusted annual rate of $423.8 billion. Gains in all major areas of activity except construction contributed. Consumer expenditures moved up $4.1 billion and private investment also continued to rise on the strength of continued inventory accumulation and high-level expenditures for producers' durable equipment. The decline in construction expenditures during the quarter amounted to $700 million. A further increase in net foreign investment added another $700 million to the advance. Stepped up national security expenditures accounted for most of the $1.8 billion rise in government expenditures.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	4th Qtr. 1956	*3rd Qtr. 1956*	*4th Qtr. 1955*
Gross national product	423.8	413.8	401.9
Personal consumption	270.9	266.8	259.5
Durable goods	34.8	33.0	35.4
Nondurable goods	134.7	134.0	129.2
Services	101.4	99.7	94.9
Domestic investment	68.5	65.1	65.1
New construction	32.9	33.6	33.0
Producers' durable equipment	31.5	29.5	25.9
Change in business inventories	4.1	2.0	6.1
Nonfarm inventories only	4.4	2.4	5.9
Foreign investment	2.4	1.7	−.8
Government purchases	82.0	80.2	78.1
INCOME AND SAVINGS			
National income	n.a.	343.5	334.4
Personal income	333.2	327.0	314.6
Disposable personal income	293.3	288.2	278.4
Personal saving	22.4	21.4	18.8

Record Exports

The greater expansion in United States exports than in imports contributed nearly $2 billion to the rise in gross national product last year. Commercial exports continued to move upward unevenly throughout the year and averaged 21 percent above 1955. Imports, though they were 10 percent above the previous year, flattened in 1956. Much of the gain in exports was attributable to further expansion of foreign production and incomes and accelerated shipments of agricultural commodities under various government programs. The stability of imports during the year reflected an easing of the supply shortages that characterized 1955 when inventories of numerous major raw materials were drawn down.

Despite our sizable export surplus of merchandise trade, foreign nations were able to add about $1 billion to their reserves, as a sharp increase in the outflow of funds from the United States on capital account more than offset the inflow on current account. United States capital expenditures abroad more than doubled last year, and purchases of foreign securities, particularly Canadian government bonds, also moved up considerably. However, most of this movement took place early in the year. In the third quarter the excess of foreign dollar receipts over expenditures here dropped to $100 million and in the fourth quarter our receipts exceeded expenditures abroad for the first time since early 1952.

THE FEDERAL BUDGET FOR 1958

JESSE BURKHEAD
Professor of Economics, Syracuse University

On January 16 President Eisenhower presented his fourth budget to the Congress. The first Eisenhower budget — for fiscal 1955 — requested authority for the expenditure of $65.6 billion. The 1958 budget asks for expenditures to total $71.8 billion.

In previous budget messages President Eisenhower has tended to emphasize the importance of retrenchment in public outlay but to stress the difficulties encountered in effecting major cutbacks in government programs. In the 1957 budget this approach to budget policy was reinforced by a special classification of expenditures to indicate their "controllability." This year there is less emphasis on the controllability of the budget. Instead, President Eisenhower stresses, in the budget message, the importance of such factors as "powerful armed forces," "fiscal integrity," and "a well-balanced choice of programs at home and abroad."

Budget Programs

The major expenditure programs for the four years of his first administration and the year ahead are shown in Table 1. The most striking changes which have taken place in Federal budget expenditures over this five-year period are shown on the first line — "Major national security." The first Eisenhower budget effected a $6.3 billion reduction in military outlay to bring this component close to $40 billion. Most of this reduction was attributable to the cessation of hostilities in Korea. The 1958 budget proposes an increase of $2.3 billion in national security expenditures, which accounts for most of the increase in the budget as a whole.

The remaining expenditure classifications for fiscal 1958 show modest increases all along the line, with two exceptions. "Commerce and housing" is expected to decline because this category includes the Post Office Department, and the President has again requested that postal rates be increased to produce $654 million additional revenue. If the Congress rejects this request, as it has in recent years, "Commerce and housing" expenditures will be somewhat larger than in fiscal 1957.

The decline in "General government" expenditures is not attributable to retrenchment, but to a reclassification of items. In previous years the Federal government's contribution to the civil service retirement fund was charged against "General government." Beginning with fiscal 1958 this contribution is to be charged to specific departments and agencies. Since this item amounted to $527 million in fiscal 1957 it is evident that "General government" expenditures will not be smaller but somewhat larger for fiscal 1958. Reallocating the contributions to other programs gives the appearance of increasing each of them. Increases there are, to be sure, but after allowance for the changed classification of retirement contributions, and excluding the military and interest on the public debt, expenditures on all other governmental programs are expected to increase by only about $650 million between fiscal 1957 and fiscal 1958.

The most important nonmilitary increases provide for the construction of schools, homes, and highways. Total Federal expenditures for public works of all kinds are expected to increase from $4.9 billion in fiscal 1957 to $6.3 billion in fiscal 1958, with most of the increases scheduled for highways and water resource projects. Not all of these outlays will be financed through the budget. Grants to the states for highway construction will increase by $500 million from 1957 to 1958 and these amounts will be paid from the new Highway Trust Fund.

In the 1958 budget the President proposes that the "Labor and welfare" category be increased by about $500 million. The important new program is for school construction, which, if adopted, would require additional grants to the states of $185 million in fiscal 1958. Total expenditures for "Labor and welfare" have increased by 40 percent since fiscal 1954 — from $2.5 billion to $3.5 billion. Over the past ten years, regardless of the political party in power, "Labor and welfare" expenditures have increased moderately each year. The rate of increase seems not to be dependent on the political philosophy of the budget-makers.

Table 2 shows the revenue estimates which are contained in the new budget. It is expected that fiscal 1958 net budget receipts will amount to $73.6 billion, an increase of 4.2 percent over 1957. Similarly, fiscal 1957 budget receipts will be larger than was anticipated a year ago. At that time 1957 revenue was forecast at $66.3 billion; this is now revised upward to $70.6 billion.

The upward revisions for fiscal 1957 and the estimate for 1958 reflect, of course, an assumption that there will be continued growth in the level of economic activity. For the postwar period as a whole, the average annual rate of growth in gross national product (constant dollars) has been 3.6 percent. The revenue elasticity of the Federal tax structure is probably in the neighborhood of 1.5. That is, a 1 percent growth in GNP is associated with a 1.5 percent growth in Federal revenue. This would mean that if the growth in GNP from fiscal 1957 to fiscal 1958 were 3.6 percent, the growth in revenue would be 5.4 percent. Since the projected increase is about 4.2 percent, it is evident that the Administration has been generally conservative

Table 1. Budget Expenditures by Function
(Fiscal years; millions of dollars)

Function	1954	1955	1956	1957 (estimated)	1958 (estimated)
Major national security	46,904	40,626	40,641	40,965	43,335
International affairs and finance	1,732	2,181	1,846	2,382	2,444
Commerce and housing	814	1,502	2,028	2,269	1,748
Agriculture and agricultural resources	2,557	4,411	4,913	4,701	4,965
Natural resources	1,315	1,202	1,104	1,371	1,538
Labor and welfare	2,485	2,552	2,776	3,032	3,538
Veterans services and benefits	4,256	4,457	4,756	4,851	5,027
Interest	6,470	6,438	6,846	7,260	7,360
General government	1,239	1,201	1,629	1,870	1,451
Allowance for contingencies	.....	.....	.....	200	400
Total	67,772	64,570	66,540	68,900	71,807

Source: *The Federal Budget in Brief, Fiscal Year 1958*, p. 52.

Table 2. Summary of Budget Receipts
(Fiscal years; millions of dollars)

Source	1956	1957 (estimated)	1958 (estimated)
Individual income taxes	35,334	38,500	41,000
Corporation income taxes	21,299	21,400	22,000
Excise taxes	10,004	10,691	11,071
Employment taxes	7,296	7,750	8,420
Estate and gift taxes	1,171	1,380	1,475
Customs	705	775	800
Miscellaneous receipts	3,012	2,991	3,283
Deduct:			
Transfers to trust funds	6,971	8,979	10,273
Refund of receipts	3,684	3,880	4,156
Net budget receipts	68,165	70,628	73,620

Source: *Budget of the United States Government for the fiscal year ending June 30, 1958*, p. A4.

in its revenue estimates — in the sense that it has assumed a lower-than-average rate of economic growth through fiscal 1958.

It may be noted that the Eisenhower Administration has been no more adept at aggregate budget estimates than its predecessors. Both revenue and expenditure have been consistently underestimated in recent years. Last year's budget underestimated revenue for fiscal 1956 — the year already half completed — by 5.2 percent and underestimated expenditure by 3.5 percent.

Fiscal Policy

This Administration, and in particular the Secretary of the Treasury, has attached much significance to a balanced budget. This was discussed in the election campaign of 1956 and the Administration's record was presumably approved by the majority of the voters.

Of the four Eisenhower budgets, the first (fiscal 1955) registered a $4.1 billion deficit. Fiscal 1956 closed with a $1.6 billion surplus. It is now estimated that a surplus of $1.7 billion will emerge for the current fiscal year, and for fiscal 1958 the surplus is estimated at $1.8 billion. If these estimates are realized, the four Eisenhower budgets will yield an aggregate surplus of $1.0 billion, with a corresponding reduction in the public debt.

For those who equate budget deficits with fiscal sin and budget surpluses with fiscal virtue this record of accomplishment may be adequate. But that which is sometimes called the "New Economics," now extant for twenty years, suggests that there is at least one other criterion on which to judge budget policy and that is its relationship to economic stabilization.

Within recent months it has become increasingly evident that the American economy is experiencing a mild but persistent inflation. In calendar 1956 the consumers price index increased by 3 percent. Raw materials and wholesale prices have increased by more than this, indicating that living costs may continue to rise. The 1958 budget, however, is moderately inflationary, not deflationary. The increase of nearly $3.0 billion in expenditures, even though offset by increases in revenue, will add to over-all claims for economic resources.

Moreover, Federal financial activities outside the budget will reinforce this inflationary influence over the next 18 months. The analysis of all Federal financial operations requires examination of the so-called "cash consolidated budget," which shows Federal government payments to and receipts from the public. The cash consolidated statement is more comprehensive than the conventional or administrative budget; the revenue and expenditure from trust funds are reflected here, whereas they are excluded from the administrative budget. The summary data are shown in Table 3.

It is evident from the foregoing that the slight increase in the 1958 budget surplus, taken by itself, is misleading. In fiscal 1957 Federal financial activities will withdraw $1 billion less from the economy than in fiscal 1956. In fiscal 1958 Federal financial activities will withdraw $500 million less than in fiscal 1957. In other words, the excess of Federal receipts from the public will shrink, and the Federal government's contribution to inflation control will correspondingly diminish.

It should be hastily pointed out that some perspective on the foregoing dollar figures is necessary to appraise the relation of budget policy to economic stabilization. A budget surplus of $1.8 billion is not a significant contribution to the control of inflation in a $415 billion economy. Similarly, successive declines in the cash consolidated budget surplus of $1.0 billion and $500 million are not the difference between victory and defeat in efforts to stabilize the general level of prices.

Program considerations so often outweigh considerations of economic stabilization. Certainly fiscal 1957 and possibly fiscal 1958 are appropriate years for substantial budget surpluses, which, in an ideal world, ought to be achieved by tax rate increases. This the Administration has failed to accomplish. But in an imperfect world a substantial budget surplus may well be a counsel of perfection. In the face of an upturn in international tension, the Administration has held the increase in the military budget to $2.3 billion. At the same time it has resisted tremendous pressures for tax reduction. In this kind of "hold-the-line" approach lies the Administration's contribution to inflation control.

Budget Reform

The last ten years have brought some major improvements in Federal government financial administration. Some of these were initiated by the Bureau of the Budget, others by the Treasury and the General Accounting Office, others by the departments and agencies.

Appropriation structures have been simplified and the number of appropriation titles reduced. This has given more fiscal freedom and responsibility to agency administrators. Under what is known as the Joint Accounting Program, a major decentralization of government accounting has been effected, with accompanying changes in the nature and scope of auditing. Accounting systems have been revised, particularly for commercial-type activities within departments and agencies; these are now financed from specific working capital funds. The basis

Table 3. Federal Government Receipts from and Payments to the Public
(Fiscal years; millions of dollars)

Item	1956	1957 (estimated)	1958 (estimated)
Total receipts	77,084	81,720	85,923
Total payments	72,611	78,265	82,970
Excess of receipts from the public	4,473	3,455	2,953

Source: *Budget of the United States Government for the fiscal year ending June 30, 1958*, p. 1067.

of budget preparation has been gradually shifted toward an emphasis on performance.

The term "performance budgeting" was originated by the first Hoover Commission and the activities of that Commission did much to popularize this kind of budgeting. At a broad definitional level, performance budgeting required a classification of government activities in accordance with end products, with things done, with accomplishment, rather than a classification based on the things which government buys. The transition to this kind of budget-making was, in fact, initiated before the report of the first Hoover Commission. However, progress in this direction is slow. The 1957 budget contained four cost-type budgets — for the operating expenses of the Atomic Energy Commission, Canal Zone Government, Bureau of the Mint, and Superintendent of Documents. The 1958 document contains another 42 cost-based budgets. More than 300 are yet to be converted to this basis.

These developments are generally encouraging. There is always some danger that the emphasis on accounting and reporting will tend to make budgeting increasingly a technical exercise rather than an occasion for program analysis and review. But if this can be avoided, the use of cost-based budgets should provide better information for all levels of government management. The Congress, too, should benefit by acquiring data on program costs and performance which ought to direct legislative attention toward policy questions and away from the minutiae.

At the same time that significant improvements are being undertaken, the conventional budget is becoming increasingly less comprehensive, and the budget totals are of diminishing significance as a measure of the Federal government's impact on the economy. For example, in 1954 the Congress passed the Public Buildings Purchase Contract Act, which authorizes the General Services Administration to contract for the construction and rental of public buildings to departments and agencies. Since that time construction amounting to $602 million has been authorized under the act. Only a fraction of this amount — perhaps 10 percent — affects the budget totals for any one year. The impact of the Federal government on levels of economic activity is thereby artificially minimized.

The Highway Trust Fund, established by the Highway Act of 1956, is a further case in point. Under this statute all revenues from motor fuel taxes, excises on tires and tubes, trucks, buses, and trailers, and other miscellaneous motor vehicle revenues are placed in a trust fund. This fund is outside the budget and finances grants to the states for highway construction. It is estimated that Federal funds amounting to $38.5 billion will be committed between now and 1972. For fiscal 1957 payments from the Highway Trust Fund will amount to an estimated $1,150 million and for fiscal 1958 to $1,806 million.

In addition to the Highway Trust Fund, other trust fund activities are increasing. The Federal Disability Insurance Trust Fund will make payments of $18 million this year; this will mount rapidly to $313 million in fiscal 1958. In fact, trust fund expenditures as a whole will increase $2.4 billion to $14.4 billion in fiscal 1958.

The growing importance of the trust funds and of Federal activities financed in even less orthodox ways indicate that a continued preoccupation with the administrative budget and its surpluses or deficits is most unrealistic. Budget policy for the future should be based increasingly on an examination of all aspects of the national government's impact on the economy and not on a concern for balancing a conventional set of accounts.

The Population Boom

(Continued from page 2)

able age, marriages cannot be expected to recover for several years. The possibility of maintaining the birth rate depends, therefore, upon a substantial increase in the average size of families. The fact that births have been following each other in quicker succession is not conclusive evidence that there will be more on the average. The possibility of larger families is increased, but since the process is subject to control, the possibility does not automatically result in the actuality. When parents have enough children, they may stop having more.

It is, in effect, a problem in inventory control. The prevailing postwar picture has been one of millions of small enterprises accumulating desired stocks as rapidly as possible. But such movements tend to be self-limiting. Social norms place a limit on family size far below the capacity to reproduce. As the point of saturation is reached, the controls will tend to bring the baby boom to an end.

Even if there has been a shift of parental attitudes in the direction of having larger families, it is not necessarily permanent. The current tendencies may be reversed with the next change in conditions. Recession and unemployment would put a brake on births among those now married and would slow the rate of marriage for those coming of age. It is not possible to rule out a fall in the birth rate during a major economic recession all the way to the lows of the 1930's.

Will Population Keep Business Active?

There remains the question whether the rapid growth in population does not itself ensure the continuation of prosperity. It is clear that the baby becomes a consumer of textiles, food, and medical care even before he is born. After that, he is a consumer like anybody else, and the more mouths there are to feed, the greater tends to be the volume of consumption. Thus, population growth may be thought of as the basis for economic growth.

To keep the contributions of population in perspective, however, it should be recognized that this is only one factor affecting the change in consumption. Even with annual increases near 3 million, as in recent years, population contributes at most $2 billion per year in direct additional spending by consumers, or only a fraction of the expenditure increases that have been taking place. Income is far more important; and changes in consumer credit have had distinctly larger effects, first in raising expenditures in 1955, and subsequently, in moderating the advance in 1956. The direct contributions of population to holding the line in a recession could at best be minor.

There are also, of course, indirect effects. Homes have to be built to shelter the newcomers, and schools have to be built to educate them. Homes, however, are needed primarily by families, not by individuals, and the rate of building seems to be past the peak. Schools are not yet being constructed at the rate of maximum need, but the rate of additional construction required is not large. These and other indirect expenditures are primarily determined, not by the total head count, but by the rate at which it is increasing. Once the annual increases are past the peak, they will no longer support even the current rates of activity.

The conclusion that inescapably emerges is this: The baby boom and the business boom have been contributing to each other's progress; but in the years ahead, neither can offer sure support for the other. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

TV Facts

The popularity of television in the United States continues to increase, as shown by the results of a sample survey made by the Bureau of the Census. The report summarizing the results of the latest survey, Bulletin H-121, No. 3, indicates that the proportion of all households with television sets continues to increase. The following tabulation shows the growth in household TV ownership over a 14-month period.

	Percent with sets		
Area	*Aug. 1956*	*Feb. 1956*	*June 1955*
United States	76	73	67
Inside metropolitan areas	84	82	78
Outside metropolitan areas (urban)	69	65	56
Outside metropolitan areas (rural)	60	55	46

In all three surveys, the highest concentration of television households was inside standard metropolitan areas and the lowest in rural territory outside these areas. However, the surveys indicated more rapid growth for the outside areas.

Plans for Plastics

The growing importance of plastics is now being felt in the construction world as new uses of the man-made materials are developed and processing techniques are improved. The nontechnical circular, *Plastics as Building Materials,* describes the two groups of plastics — thermoplastics, which can be softened by heating and reshaped any number of times, and thermosetting, which, once formed, cannot be changed back to their original fluid state. Characteristics of the seven subgroup families most commonly used for building materials are enumerated.

As the selection of the most suitable plastic is dependent upon the specific use, the circular evaluates various plastics in terms of different uses. Functional types described are light transmitters, such as luminous ceilings, skylights, awnings and louvers, interior partitions, and windows; wall and roof panels that are non-light-transmitting; insulation and vapor barriers; coverings for floors, walls, and counter tops; electrical and mechanical devices such as wire insulators, housing switch plates, pipes, gutters, window frames, and screens.

Copies of this 8-page leaflet may be obtained for 10 cents from the Small Homes Council, University of Illinois, Urbana, Illinois.

Educational Films

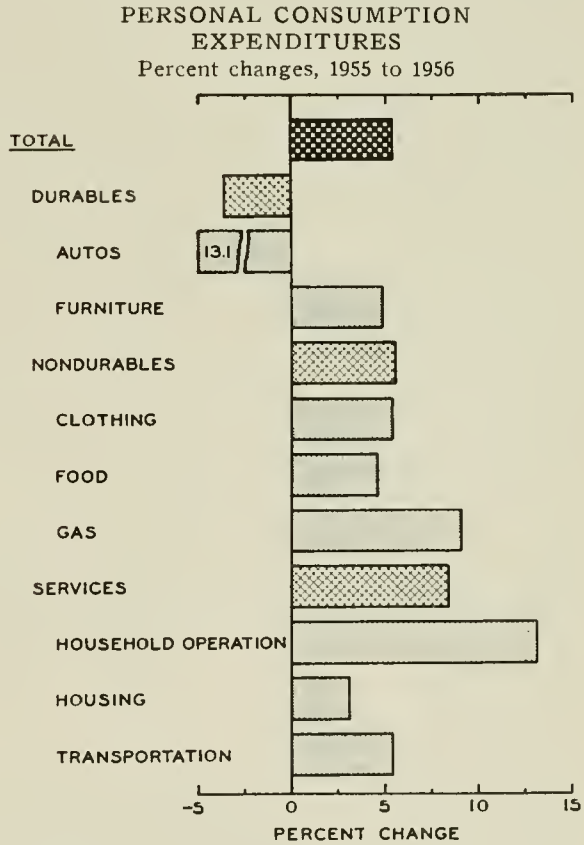
The business educational films of many different producers are now available from a single office, resulting in a more comprehensive listing of subjects and in greater convenience to users. The agency is Business Education Films, Film Center Building, 630 Ninth Avenue, New York 36. Most of the films are 16-mm. black-and-white sound strips, although there are some on 35-mm. film. A catalog of films, with rental charges and recommended educational level, is available from the agency, which should also be contacted for information regarding the purchase of films.

Some 200 films on a wide variety of subjects from the stock market to gardening are available on a free loan basis as a public service by business and industry. A booklet describing the films may be obtained from Modern Talking Picture Service, 3 East 54th Street, New York 22. The films are distributed from libraries in 28 cities throughout the nation, and the only charge to the user is the cost of mailing.

Personal Consumption

Another high was set by the nation's consumers as personal consumption expenditures in 1956 reached nearly $266 billion, a gain of more than 5 percent over the previous record set in 1955. Figures released by the United States Department of Commerce showed increases in all major categories within the durables, nondurables, and services classifications with the exception of automobiles and parts, which experienced a drop of more than 13 percent (see chart). The quarterly expenditure pattern of the automotive category also varied from the remainder of the group. It had a peak of $15.5 billion (annual rate) in March, then dropped to less than $14 billion in both June and September, and recovered to $15.3 billion in December. The pattern set by the other categories indicated a March low, followed by gains each succeeding quarter to a December high.

A slight shift in the composition of total expenditures for goods and services was recorded. Durables fell from 14 percent in 1955 to less than 13 percent in 1955, and services rose one percentage point to 37 percent. On the other hand, nondurables accounted for one-half of total expenditures both years.



Sources: *Survey of Current Business,* February, 1956 and 1957.

LOCAL ILLINOIS DEVELOPMENTS

The January seasonal decline made its usual appearance in manufacturing employment and petroleum production. Life insurance sales and Chicago department store sales declined sharply. On the other hand, coal production was up nearly 10 percent.

Comparisons with the same period a year ago showed large gains in several indicators. Life insurance sales jumped by one-fourth, business loans extended by leading Chicago banks were up about one-sixth, and farm prices received gained more than one-tenth.

Livestock Inventory

The value of livestock and poultry on farms in Illinois rose 18 percent during 1956 to $640 million on January 1, 1957, according to the Illinois Cooperative Crop Reporting Service. Horses, mules, and turkeys were the only species that declined in total value. A 12 percent unit price increase for horses and mules was offset by a proportionately greater drop in numbers. For turkeys, the 5 percent increase in numbers did not match the price dip.

All cattle totaled nearly 4.3 million head, a gain of 6 percent above last year. Despite the continued upward trend in number of cattle, milk cows decreased in number for the third consecutive year. Rising beef and milk cow prices produced a 14 percent over-all gain in value, to $440 million.

The number of hogs on Illinois farms was the same as a year ago, 6.3 million. However, the average price of $25.80 per head caused the total value of hogs to jump to $164 million, a gain of 38 percent. The value of all sheep also showed a marked, though not as spectacular, increase as a result of rises in both unit price and numbers.

Life Insurance

Illinois ranked fourth in the nation in life insurance ownership in 1955, according to the Institute of Life Insurance. Illinois families owned more than $26 billion of life insurance, represented by about 16.7 million certificates and policies. The record amount was almost three times that owned in 1940 and about twice the amount in 1946, the first full postwar year. However, the 1955 total was only 7.0 percent of the United States total as compared with 8.2 percent in 1940, indicating greater ownership growth in other parts of the country.

A definite redistribution of policy types was recorded over the 16-year period. Of the four categories of life insurance — ordinary, group, industrial, and credit — ordinary policies accounted for 60 percent of the total coverage in 1955, a decline from 70 percent in 1940 (see chart). The proportion of industrial insurance also declined over that period. On the other hand, group insurance nearly doubled, from 14.2 to 27.5 percent. Credit insurance, little known a generation ago, rose to 2.5 percent. This type of coverage is used so extensively now that nearly one-half of consumer credit in the United States is covered by policies written expressly to meet the loan in case of death.

Igneous Rock — a Problem?

The presence of igneous intrusive rocks in the Illinois coal fields is not likely to create a major economic problem, report K. E. Clegg and J. C. Bradbury of the State Geological Survey in their recent booklet, *Igneous Intrusive Rocks in Illinois and Their Economic Significance.* The study was made in response to inquiries from coal-mining personnel.

Intrusive rocks are frequently encountered by miners and coal test drillers in the southern part of the coal basin. However, known rock locations in the coal basin are limited to Saline and Gallatin counties with the exception of Absher in eastern Williamson County.

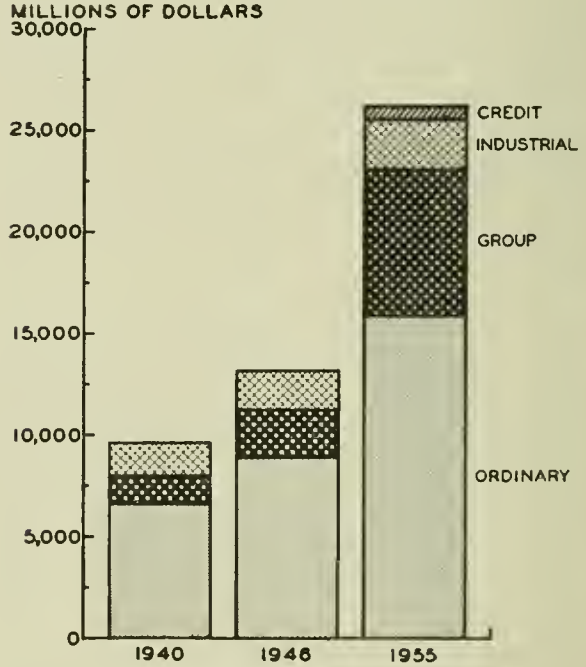
Clegg and Bradbury reported little justification for labeling coal acreage as worthless because evidence of intrusive rock appears. More detailed drilling and investigation would be necessary before obtaining an accurate evaluation of the potential value of the property.

Farm Income

Illinois ranked third in the nation when the final tallies on 1956 cash receipts from farm marketing were published by the United States Department of Agriculture. Preceded by California and Iowa, states that have retained those respective positions for nine consecutive years, Illinois bumped Texas into fourth place by recording a 13 percent gain over 1955 to reach $1,926 million in cash receipts. There were no changes in rank when government payments were added to the totals. Payments to Illinois farmers amounted to $30 million — more than two-thirds from the Soil Bank program and one-fourth from the Conservation Reserve program.

Preliminary averages of realized net income per farm for Illinois indicated a sharp increase, 39 percent, to $3,917. The Agricultural Marketing Service reported that substantially higher cash receipts from corn and soybeans, smaller gains for wheat and dairy products, and Soil Bank payments all contributed to the rise. This increase more than offset continued rises in production expenses — particularly for livestock and feed purchases, and repairs and operation of capital items.

LIFE INSURANCE IN FORCE



Source: Institute of Life Insurance, *The Growth of Life Insurance in the State of Illinois, 1940-1955.*

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$27,693[a]	1,188,560[a]	$688,539[a]		$16,352[a]	$13,999[a]
Percentage change from Dec., 1956	+4.5	+3.6	+21.6	−52	+5.2	−23.9
Percentage change from Jan., 1956	−3.3	+7.2	−3.8	+3	−0.4	
NORTHERN ILLINOIS						
Chicago	$24,537	900,452	$497,417		$14,935	$11,834
Percentage change from Dec., 1956	+28.2	+2.6	+20.9	−52	+5.3	−26.2
Percentage change from Jan., 1956	+13.5	+7.2	−5.5	+3	−1.5	
Aurora	$ 172	n.a.	$10,602		$ 65	$ 140
Percentage change from Dec., 1956	−44.9		+20.9	−59	−0.4	−12.3
Percentage change from Jan., 1956	+25.5		+1.4	−1	+8.9	
Elgin	n.a.	n.a.	$ 8,185		$ 41	$ 102
Percentage change from Dec., 1956			+25.7	−59	−0.9	−15.2
Percentage change from Jan., 1956			+3.3	−4	+12.4	
Joliet	$ 91	n.a.	$15,688		$ 83	$ 126
Percentage change from Dec., 1956	−76.6		+21.4	−58	+1.1	−8.3
Percentage change from Jan., 1956	−90.3		+3.9	+3	+15.3	
Kankakee	$ 76	n.a.	$ 6,779		n.a.	$ 51
Percentage change from Dec., 1956	−3.8		+37.6	n.a.		−14.1
Percentage change from Jan., 1956	+52.0		+4.9			
Rock Island-Moline	$ 283	24,562	$11,979		$ 101[b]	$ 170
Percentage change from Dec., 1956	−37.7	+7.2	+28.7	n.a.	+5.1	−12.5
Percentage change from Jan., 1956	−57.3	−1.1	−3.1		+17.4	
Rockford	$ 678	51,433	$22,377		$ 184	$ 274
Percentage change from Dec., 1956	−62.6	+18.8	+17.4	n.a.	−2.2	+3.1
Percentage change from Jan., 1956	−46.8	+25.3	−5.6		+10.5	
CENTRAL ILLINOIS						
Bloomington	$ 32	8,690	$ 7,123		$ 74	$ 93
Percentage change from Dec., 1956	−94.6	+3.0	+30.7	n.a.	+18.2	−4.0
Percentage change from Jan., 1956	−58.4	+4.1	+3.6		+17.7	
Champaign-Urbana	$ 159	11,341	$ 9,531		$ 74	$ 116
Percentage change from Dec., 1956	−62.9	+3.2	+20.0	n.a.	+5.6	−11.6
Percentage change from Jan., 1956	−67.6	+5.2	+1.3		+13.2	
Danville	$ 179	11,995	$ 8,369		$ 59	$ 70
Percentage change from Dec., 1956	−87.3	+3.2	+26.7	−61	+8.1	−13.5
Percentage change from Jan., 1956	+11.2	+9.2	+2.8	+6	+19.9	
Decatur	$ 300	33,272	$15,076		$ 129	$ 147
Percentage change from Dec., 1956	−37.2	−1.2	+20.6	−57[c]	+7.2	+11.9
Percentage change from Jan., 1956	−28.7	+6.0	+3.7	−2[c]	+15.6	
Galesburg	$ 104	9,298	$ 5,434		n.a.	$ 45
Percentage change from Dec., 1956	+67.7	+9.6	+28.4	n.a.		−2.4
Percentage change from Jan., 1956	+13.0	+11.9	−0.8			
Peoria	$ 433	56,471[c]	$22,757		$ 231	$ 281
Percentage change from Dec., 1956	−46.2	+6.2	+26.7	−58[c]	+1.2	−22.6
Percentage change from Jan., 1956	+56.3	+3.2	−0.1	−1[c]	+6.8	
Quincy	$ 159	9,866	$ 6,495		$ 43	$ 80
Percentage change from Dec., 1956	+156.5	+2.4	+24.2	−60	+3.1	−3.3
Percentage change from Jan., 1956	+27.2	+7.4	+1.8	+1	+5.4	
Springfield	$ 217	36,140[c]	$17,432		$ 130	$ 269
Percentage change from Dec., 1956	−8.4	+5.3	+23.7	−59[c]	+7.1	−9.5
Percentage change from Jan., 1956	+36.5	+5.1	+2.6	−1[c]	+7.8	
SOUTHERN ILLINOIS						
East St. Louis	$ 86	12,190	$11,229		$ 162	$ 104
Percentage change from Dec., 1956	+26.5	+3.3	+19.0	n.a.	+7.5	+20.7
Percentage change from Jan., 1956	−70.2	−13.0	+4.0		+24.2	
Alton	$ 92	14,802	$ 6,023		$ 39	$ 44
Percentage change from Dec., 1956	−8.9	+9.0	+20.9	n.a.	+1.0	−11.4
Percentage change from Jan., 1956	−83.8	+8.2	−2.9		+0.4	
Belleville	$ 95	8,046	$ 6,044		n.a.	$ 54
Percentage change from Dec., 1956	+41.8	+8.7	+29.3	n.a.		−14.3
Percentage change from Jan., 1956	−92.7	+3.1	+10.6			

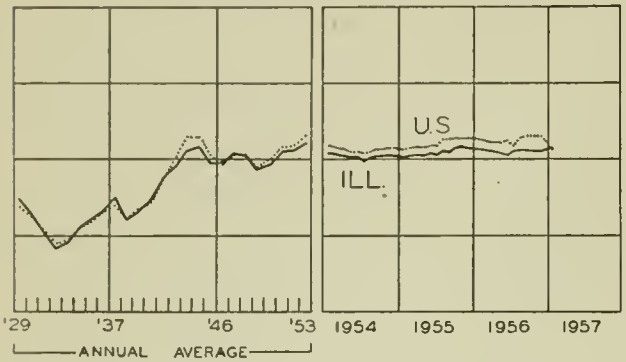
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for December, 1956. Comparisons relate to November, 1956, and December, 1955. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending January 11, 1957.

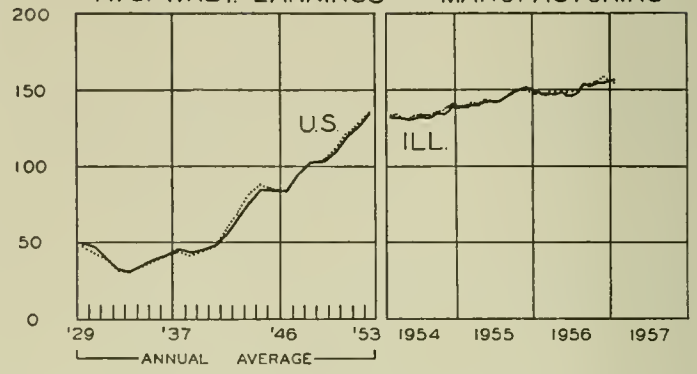
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

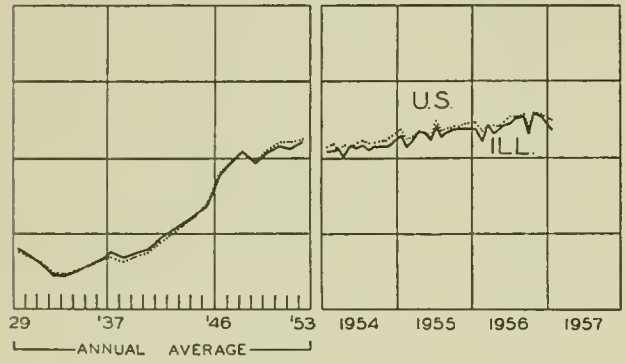
EMPLOYMENT–MANUFACTURING



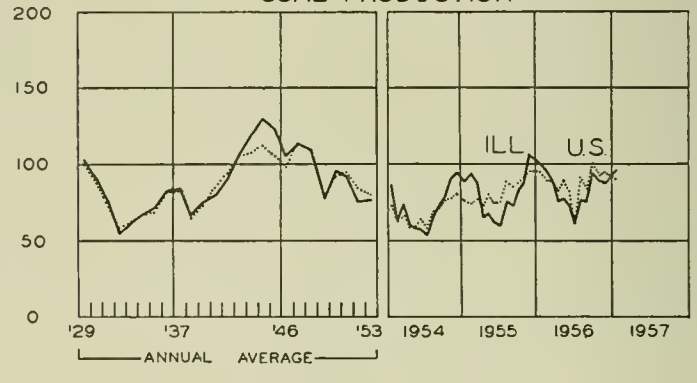
AVG. WKLY. EARNINGS — MANUFACTURING



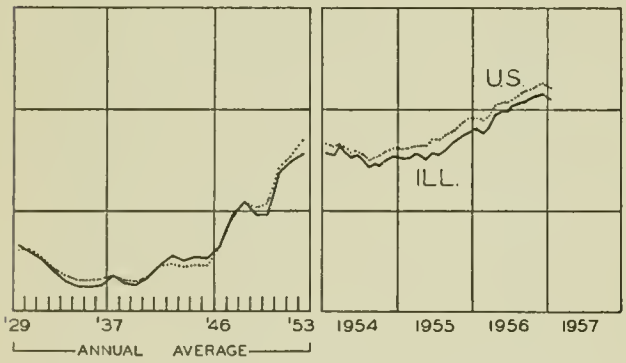
DEPARTMENT STORE SALES



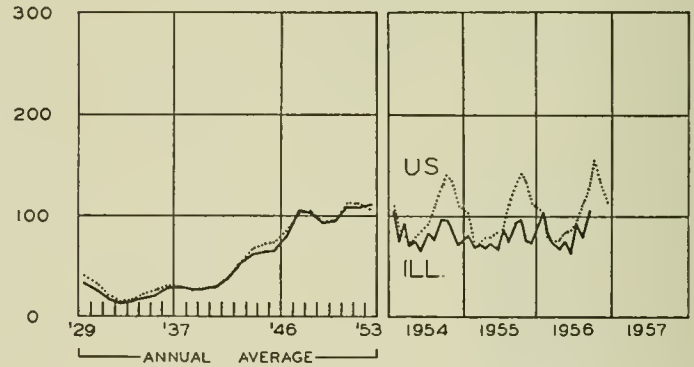
COAL PRODUCTION



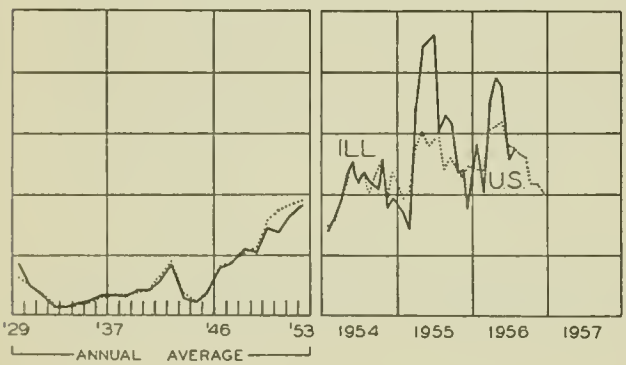
BUSINESS LOANS



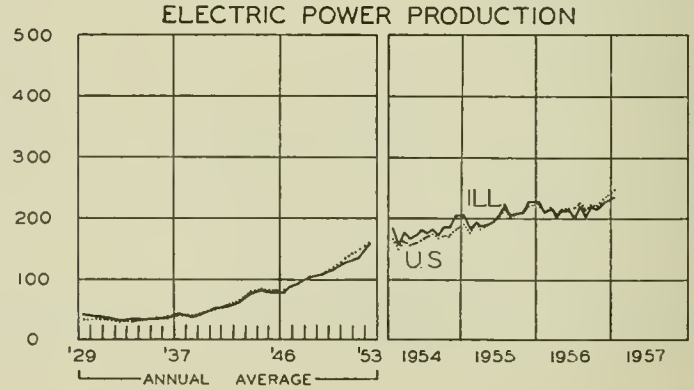
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

Business conditions in March continued to present a confusing picture of conflicting movements. The most recent estimates of personal income and employment indicate a high level of business activity and the continued small advances in the consumer price index provide the basis for inflation fears. However, the wholesale price index, which tends to lead retail price movements, has remained very stable in recent months. Manufacturing employment was down in February and March and weekly hours worked have averaged lower so far this year than in any months in 1956 except May, June, and July.

The index of industrial production in March held at the January-February level of 146 (1947-49 = 100) on a seasonally adjusted basis. Automotive output was about 4 percent above March of last year, but on a daily average basis was slightly below February. Steel production declined throughout the month, running between 6 and 9 percent below capacity. Heavy construction contract awards were slightly above February, but were still more than 20 percent below March, 1956. Electric power output in March was about 5 percent above the month a year ago and about the same as in February.

Employment Up

Employment showed a seasonal increase of 675,000 for the month ending in mid-March, following a rise of 600,000 in the preceding month. These advances raised total employment almost to 63.9 million. Workers out of work but with new jobs pending within 30 days were not included among the employed as they were prior to the February report, but were counted among the unemployed. A seasonal decline of 239,000 brought unemployment down to about 2.9 million by mid-March.

Expansion of employment in agriculture and other outdoor work and among self-employed workers accounted for most of the increases in the two months. Factory employment declined by 24,000 in the month ending in mid-March, bringing the total drop since mid-December to 200,000, compared with a normal reduction of 100,000 for this period.

Construction Outlays Rise

Spending on new construction increased seasonally in March to almost $3.2 billion, about 9 percent above February's $2.9 billion and 3 percent above March, 1956. Private construction outlays accounted for $2.3 billion, 7 percent above February and about the same as a year ago. Expenditures of $890 million for new housing were 10 percent above the previous month, but were still 11 percent below March last year. The $900 million of public construction expenditures represented an increase of 14 percent over February and 13 percent over March, 1956.

With March figures in, it is apparent that the first three months of 1957 saw the highest first quarter outlays on record, $9.2 billion. On a seasonally adjusted basis, this total represented a record annual rate of $44.8 billion. However, increases in construction costs largely offset the 4 percent rise in dollar volume over the first quarter of last year.

New Orders Decline

New orders received by manufacturers declined from January to February by $500 million on a seasonally adjusted basis, with most of the decrease coming in the durable-goods industries. Sales by manufacturers held steady at $29.2 billion on the same basis, while inventories rose by $300 million, two-thirds of the increase occurring in durable goods. The inventory-sales ratio for February was 1.87 as against 1.78 for February, 1956. Since actual sales exceeded new orders by $400 million, unfilled orders were reduced by this amount.

February wholesale sales of $9.6 billion were $200 million below the preceding month, after allowing for seasonal declines. Inventories of wholesalers amounted to $13.1 billion, the same as in January after seasonal adjustment. Retail sales edged up $100 million in February, while inventories of retailers declined by the same amount, in both cases on a seasonally adjusted basis.

With allowance for seasonal factors, all sales — manufacturing, wholesale, and retail — declined $200 million during February, while inventories rose $200 million.

Personal Income Continues Rise

February personal income reached a record seasonally adjusted annual rate of $336.7 billion, $21.6 billion above the rate for February last year. The increase of $1.7 billion over the January rate came mostly from higher payrolls, primarily in nonmanufacturing industries.

An increase in private payrolls, estimated at $1.2 billion, reversed a $500 million decline in January. The advance in employment, a slight rise in hours, and somewhat higher wage rates accounted for the gain. Other advances were reported for government payrolls, nonfarm proprietors' income, and transfer payments.

THE SECOND ERA OF TOLL ROADS · · · By John F. Due · · · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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Keeping Taxes High

Most discussions of the Federal budget for 1958 have been predicated on the assumption of continuing inflationary pressure. This assumption is built into the budget estimates in various ways, specifically in the estimated tax receipts to be paid from high individual and corporate incomes to be realized in 1957. These estimates were the basis for President Eisenhower's proud assertion of "fiscal integrity" in pointing out that "a balanced budget is proposed."

The optimistic view also underlies the so-called "economy drive." It expresses the feeling that the government is doing too much in a period of high general prosperity. Perhaps even more, however, the economy drive reflects the ever-present feeling that it is less important to spend more than to cut taxes. This is bound to be a widespread feeling at income tax time. It motivates many of the letters written to Congress, crying out against the high rate of spending.

"Economy Drive" Not Getting Far

It is a mistake, of course, to think that all the pressure is from one side. Those who favor the expenditure programs are also actively pressing for the passage of measures that will give them what they want. Some programs have widespread support. Others are desired by limited minorities. But the claims of the latter are intense and their potential opposition might prevent the passage of some of the former unless all are enacted together. In the President's words, the "people demand and deserve" the programs included in the budget.

The same emphasis on programs fails to appear in most discussions of the need for economy. Both the Administration and Congress seem to think of wasteful spending in terms of payrolls rather than programs. Defense Secretary Wilson has ordered a 12 percent cut in civilian personnel in the Washington area, a minor item in his total budget, but insisted that not a penny could safely be cut from the programs under his jurisdiction. The House Appropriations Committee also whittled away at small payroll items while leaving large programs more or less intact.

Thus far the efforts to effect reductions have not met with great success. Some of the announced cuts merely reduced tentative appropriations for open-end items that may subsequently require deficiency appropriations. Others were reinstated on the House floor, where the votes are a matter of record — for example, the $50 million antipollution program providing grants to communities for building sewage disposal plants. In other cases, carry-over funds will support expenditures even though new appropriations are not approved.

This does not mean that the opposition to spending is wholly unsuccessful. Washington experts express the view that the economizers may succeed in holding expenditures for fiscal 1958 to about the level of the $72 billion requested. Otherwise expenditures might go higher still. The experts also point out that appropriations are only a loose form of control when unexpended balances carried over into the new fiscal year will total some $46 billion.

Financial Reverses Possible

An important aspect of the situation is that the expenditures of recent months have been running considerably ahead of the estimates for the current fiscal year. Defense and foreign aid expenditures in particular have soared over the estimates. Foreign developments were very important in stimulating this advance; most of the publicity centers on Suez and the Near East, but the Hungarian revolt may have been an even more important stimulus for the rebound in military expenditures.

The expansion has progressed so rapidly that current expenditures have attained the level called for by next year's estimates. This development has two important implications: If fiscal 1958 expenditures are held to the budget estimates, no further expansion will be called for through the rest of 1957; and the estimated budget surplus for fiscal 1957 may be cut in half.

If the optimistic projections of receipts are accepted, the outlook for fiscal 1958 may be viewed as still conforming to expectations. However, the change in the economic situation in 1957 suggests the possibility of an important shift in fiscal 1958, because the initiative in the over-all economic picture has shifted from the private economy to the government.

During the past two years, consumers and business pushed their expenditures vigorously, incurring large deficits to do so. They utilized all available financial resources, borrowing heavily from banks and other institutions. The Federal government, playing a comparatively passive role, was happy to accept the surpluses that the largesse of the private economy provided for it. Its expenditures remained comparatively stable while receipts forged ahead with the expansion in private activity and incomes.

In the early part of 1957, however, the emphasis has shifted. Growing signs of weakness signify the beginning of a letdown in the private sectors. At best the private economy can be expected to produce something approaching stability during the rest of this year. For the time being, the government has become the dynamic sector, and if it has to be the main support for the economy over an extended period of months, its position will tend to shift to the deficit side even though the over-all level of income remains high. The budget estimates indicating a continuation of recent surpluses represent the most optimistic basis on which government finances may be projected through fiscal 1958.

No Prospect for Tax Cuts

Under these circumstances, efforts to achieve a margin for tax reduction through economy programs are likely to be self-defeating. Any reduction in Federal ex-

(Continued on page 8)

RETAIL STORES—SALES AND GROWTH TRENDS

Retailing in Illinois is big business. The State ranks third in the nation in sales—a level it has maintained throughout the postwar decade.

The last official tabulation of retail sales, reported by the *1954 Census of Business*, listed the Illinois total at $11 billion. It is estimated that in 1956 this figure reached $12 billion, an 11 percent increase over 1954. This sales increase from 1954 was due to increases in prices as well as to an enlarged flow of goods.

Rosy as the State retail picture may appear, it is by no means exceptional. Though the State's total retail sales have risen more than 26 percent since 1948, Illinois has lost ground in the national picture because sales in other states have climbed more sharply. For example, the *Survey of Current Business* reported: "Illinois registered a small but steady downtrend throughout the period from 1948 to 1954 in its share of sales, which fell from 7½ to 6½ percent of the United States total." There are no indications of an upturn in this percentage since 1954.

Perhaps the most striking retailing development in postwar years has been the decentralization of sales from old downtown districts. Suburban shopping centers have grown with improved traffic and parking facilities available outside of heavily congested business areas.

This shift is being felt by retailers in the older, central business districts. The Department of Commerce found that between 1948 and 1954 sales rose 32 percent in 48 large metropolitan areas, whereas sales increased only 1.6 percent in their downtown business districts.

Food Store Growth

The biggest single retail group in Illinois, as well as in the nation, is the food store group. Sales in 1956 soared to an unprecedented high of $46 billion nationally and an estimated $2.6 billion in Illinois.

A comparison of the 1948 and 1954 business censuses reveals that, whereas sales rose 33 percent, the number of Illinois food stores dipped more than 20 percent. This contrast is vivid evidence that food stores sharply altered their retailing methods during that period. The essence of the change is the growth of the "supermarket." Characterized by easy accessibility, ample parking space, a large selection of items, self-service, and lower prices, the supermarket has become the dominant institution in food retailing.

Introduction of supermarkets was accelerated by the trek to the suburbs. Food store operators welcomed the opportunity to open huge markets, at low rents, in and near the mazes of well-populated postwar housing developments.

The 1948-54 sales jump had an assist from increasing use of partially or wholly processed food products, especially in the frozen food lines, which were priced higher because of the extra services involved. The stores also created additional sales by pushing out into other lines of business, selling such articles as hosiery, utensils, books, and cosmetics. Introduction of sundries, largely a postwar innovation, caught on in the outlying areas where such articles are often less readily available.

In contrast to these trends, the number of eating places grew more than 6 percent between 1948 and 1954, and over-all sales gained 38 percent. This growth reflects rising per capita income, which affords more people the opportunity of restaurant eating, and increased travel, which calls for more food consumption away from home.

The Automotive Group

The Illinois consumer, like those in other parts of the country, has placed increasing emphasis on the family car. But his use, whether it be for luxury or necessity, is expensive. For example, the *1954 Census of Business* revealed that the average Illinoisan spent nearly 22 cents of every retail dollar for his car. This amount was necessary to satisfy the driving "habit," an addiction required in part by postwar suburban living.

Sales by the automotive group fluctuated rather erratically between 1948 and 1954, but wound up with a 44 percent increase in the State and a 48 percent increase in the nation over that period. Meanwhile, the number of dealers in Illinois decreased by 250.

Gasoline and oil sales are closely related to automobile registrations because as the car population rises, filling station sales also rise. In 1948 there were fewer than 30 million cars on the nation's roads; in 1956 there were more than 50 million. Sales to car owners by filling stations skyrocketed an estimated 114 percent nationally between 1948 and 1956.

Other Retail Trends

Among the stores that continued to grow in numbers between 1948 and 1954 were the furniture, general merchandise, lumber and hardware, and apparel stores. The lumber yards, for example, have expanded their activities in keeping with the postwar housing boom. Need for additional yards in outlying districts near areas of new construction brought about a 17 percent increase from 1948 to 1954 in the State.

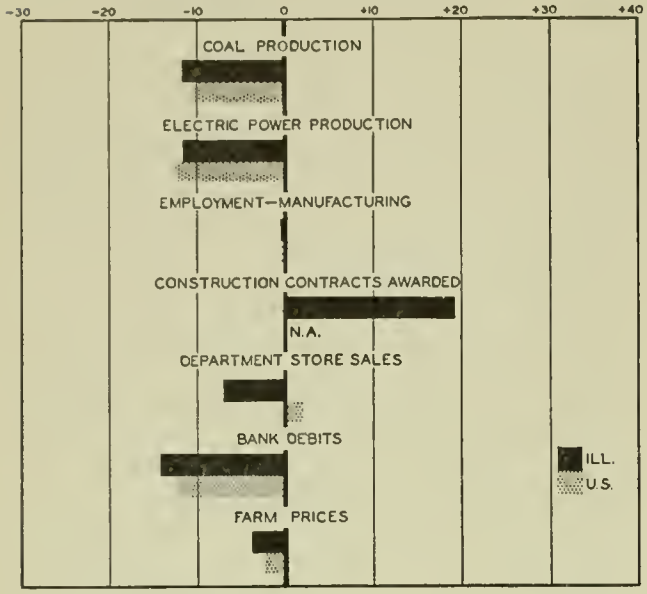
Also keeping in line with the shift to suburban areas were increases in the number of furniture and appliance stores. Their numbers in Illinois grew by 10 percent between 1948 and 1954. Sales increases of 34 percent are linked partly to the furniture and appliance needs of new housing, but important in the jump was the television craze, which occurred after the 1948 census.

In the Chicago area a major trend was developing: the city lost business rapidly while its outlying metropolitan area was gaining. In 1954, Cook County had 49 percent of the State's retail sales, and with its metropolitan area represented 64 percent of the total. However, between 1948 and 1954 Chicago had lost 8.4 percent of its total retail stores, much more than either Cook County or the metropolitan area. Likewise, as one moves outward from Chicago proper, the percentage of sales increase rises consistently, indicating that the metropolitan area is growing and, as it enlarges, is drawing stores and sales away from the old downtown district.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1957, to February, 1957



N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	February 1957 (1947-49 =100)	Percentage Change from Jan. 1957	Percentage Change from Feb. 1956
Electric power[1]	208.2	−11.5	− 0.7
Coal production[2]	85.4	−11.6	−11.7
Employment — manufacturing[3]	107.8	− 0.3	− 1.1
Weekly earnings—manufacturing[3]	155.0[a]	− 1.0	+ 3.8
Dept. store sales in Chicago[4]	118.0[b]	+ 3.5	+ 7.3
Consumer prices in Chicago[5]	121.5	+ 0.4	+ 2.7
Construction contracts awarded[6]	305.1	+19.0	n.a.
Bank debits[7]	160.6	−14.2	+ 3.3
Farm prices[8]	77.0	− 3.8	+ 4.1
Life insurance sales (ordinary)[9]	246.2	− 3.6	+20.0
Petroleum production[10]	119.9	−10.2	+ 1.4

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] January data; comparisons relate to December, 1956, and January, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	February 1957	Percentage Change from Jan. 1957	Percentage Change from Feb. 1956
	Annual rate in billion $		
Personal income[1]	336.7[a]	+ 0.5	+ 6.9
Manufacturing[1]			
Sales	350.4[a]	0.0	+ 7.4
Inventories	51.8[a, b]	+ 0.6	+10.4
New construction activity[1]			
Private residential	11.2	− 8.2	− 6.4
Private nonresidential	13.8	− 1.9	+ 5.4
Total public	9.6	− 7.3	+ 9.1
Foreign trade[1]			
Merchandise exports	20.1[c]	−16.0	+30.5
Merchandise imports	13.4[c]	+ 6.4	+ 4.2
Excess of exports	6.7[c]	−40.9	+164.7
Consumer credit outstanding[2]			
Total credit	40.5[b]	− 1.0	+ 8.1
Installment credit	31.2[b]	− 0.2	+ 8.0
Business loans[2]	30.3[b]	+ 0.2	+15.1
Cash farm income[3]	n.a.	.....	.....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	146[a]	0.0	+ 2.1
Durable manufactures	164[a]	0.0	+ 3.8
Nondurable manufactures	130[a]	0.0	0.0
Minerals	132[a]	+ 1.5	+ 2.3
Manufacturing employment[4]			
Production workers	106	− 0.6	− 0.9
Factory worker earnings[4]			
Average hours worked	101	+ 0.2	− 0.7
Average hourly earnings	154	0.0	+ 6.2
Average weekly earnings	155	+ 0.2	+ 5.4
Construction contracts awarded[5]	n.a.	.....	.....
Department store sales[2]	124[a]	− 0.8	+ 4.2
Consumers' price index[4]	119	+ 0.4	+ 3.6
Wholesale prices[4]			
All commodities	117	+ 0.1	+ 4.1
Farm products	89	− 0.6	+ 3.3
Foods	104	− 0.3	+ 5.1
Other	126	+ 0.2	+ 4.1
Farm prices[3]			
Received by farmers	86	− 2.3	+ 2.4
Paid by farmers	118	+ 0.9	+ 5.4
Parity ratio	80[d]	− 2.4	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for January, 1957; comparisons relate to December, 1956, and January, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Mar. 23	Mar. 16	Mar. 9	Mar. 2	Feb. 23	Mar. 24
Production:						
Bituminous coal (daily avg.) ..... thous. of short tons	1,710	1,704	1,617	1,610	1,642	1,660
Electric power by utilities ..... mil. of kw-hr	11,723	11,650	11,867	11,791	11,920	11,134
Motor vehicles (Wards) ..... number in thous	162	162	159	162	162	155
Petroleum (daily avg.) ..... thous. bbl	7,818	7,799	7,813	7,519	7,567	7,163
Steel ..... 1947-49 = 100	139	139	140	143	145	142
Freight carloadings ..... thous. of cars	686	689	672	701	627	697
Department store sales ..... 1947-49 = 100	113	107	98	99	100	112
Commodity prices, wholesale:						
All commodities ..... 1947-49 = 100	116.9	116.9	116.8	116.9	116.9	112.8[a]
Other than farm products and foods ..... 1947-49 = 100	125.3	125.4	125.3	125.4	125.4	121.0[a]
22 commodities ..... 1947-49 = 100	88.8	88.8	88.6	88.0	88.5	90.1
Finance:						
Business loans ..... mil. of dol	31,579	30,844	30,444	30,314	30,347	27,741
Failures, industrial and commercial ..... number	318	301	327	284	300	208

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1956.

RECENT ECONOMIC CHANGES

Price Advance Continues

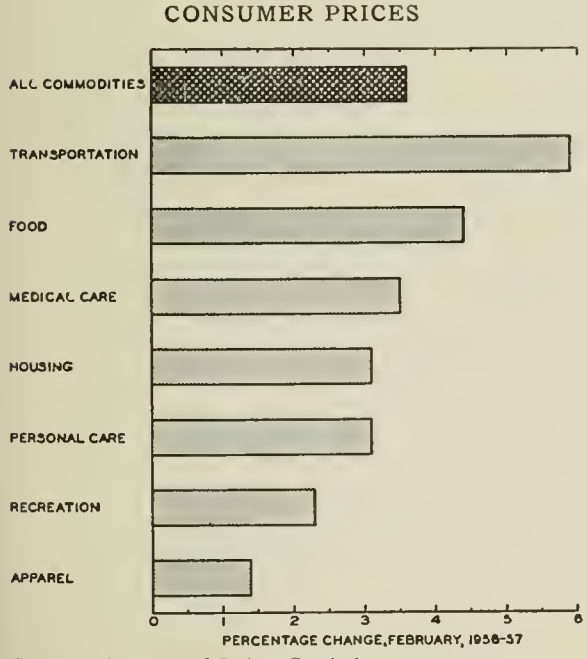
Consumer prices moved upward another 0.4 percent in February. Higher food and housing prices accounted for most of the rise, although advances occurred for all major groups of goods and services except apparel. The increase in food prices was the largest since last July. In housing the rise was due almost entirely to higher prices for house furnishings, up 1 percent during the month, the largest advance in this group since early 1951. Average rents, which moved up more or less steadily throughout the postwar period, have stabilized in recent months.

The gain in average consumer prices over the past year, scored mainly in the last nine months, is the largest experienced since the Korean War period of 1950-51. As shown by the chart, all major components of the price index contributed to the over-all advance from a year ago. Average prices rose by 3.6 percent to the February high of 118.7 (1947-49 = 100). Higher prices of food and housing, which account for about three-fifths of consumer expenditures, have been most significant, although the biggest percentage gain was recorded for transportation equipment. This reflects to a considerable extent higher costs of new and used cars over last year, as well as further advances in auto maintenance charges, gasoline prices, insurance rates, and prices of tires. Prices of consumer services, such as medical and personal care, which have risen more than other major groups over the past five or six years, moved up relatively less in the past twelve months.

Consumer Finances

The financial position of consumers improved on the average last year. On the basis of continued optimism about the future, families and other spending units plan to make major expenditures for durable goods about equal to those they made in 1956, according to preliminary indications of the annual Surveys of Consumer Finances conducted by the University of Michigan for the Federal Reserve Board. About 41 percent of all spending units reported incomes of $5,000 or more last year compared with 36 percent in 1955 and 26 percent in 1952; 17 percent reported incomes over $7,500, twice the 1952 proportion. Increases in incomes were widely distributed among occupational groups, with 45 percent of spending units sampled reporting higher incomes than in the preceding year. This was the highest proportion of increases since 1953.

About 8 percent of the spending units plan purchases of houses this year as compared with 9 percent last year. On the other hand, 24 percent indicated plans to make home improvement outlays of $50 or more, about 2 percent more than in 1955. Approximately 8 percent plan purchases of new cars and 8 percent plan to buy used autos, in both cases about the same proportion as in 1956. A slightly higher number than in 1956 were planning furniture and appliance outlays in early 1957. Continued optimism is reflected to some extent in the expectation by an increased percentage of spending units that they will fare better, income-wise, in 1957 than last year.



Source: Bureau of Labor Statistics.

Housing Vacancies

The vacancy rate on houses for rent or sale declined slightly in the closing quarter of 1956, according to the latest Census sample. Vacant units for sale dipped from 0.6 percent of available units in the third quarter to 0.4 percent. Vacancies for rent of 2.1 percent were about the same as reported in earlier surveys for 1955 and 1956. The over-all rate of 2.5 percent on units available for rent or sale in the fourth quarter was, however, considerably higher than the 1.6 percent in 1950.

The recent decline in vacancy rates resulted largely from a drop in available vacancies in the West and in the North Central Region. The West and the South continued to have the highest vacancy rates, 3.2 and 3.3 percent respectively. The rate for the North Central Region was 2.1 percent and for the Northeast 1.6 percent.

The vacancy rate in the last quarter of 1956 for rental units alone amounted to 5.3 percent. This "rental vacancy rate" expresses the relationship between vacant housing that is offered for rent and the total rental supply, i.e. the sum of the renter-occupied units, vacant units already rented and awaiting occupancy, and vacant units available for rent.

Financing Plans for 1957

Public utilities and large manufacturing concerns plan to obtain a moderately larger volume of funds through the securities markets and bank borrowings in 1957 than in 1956, according to 1957 financing plans obtained by the Securities and Exchange Commission. The survey of financing intentions taken in conjunction with the annual survey of capital expenditures is considered tentative since these plans are subject to marked change on short notice. However, the general pattern of financing intentions conforms to that of capital outlays.

External financing by utilities and manufacturing concerns changed little between 1954 and 1955, then rose substantially in 1956 along with plant and equipment investment. A much more moderate advance is anticipated in 1957 in both financial requirements and expenditures.

The survey indicates that new external financing by manufacturers and utilities in 1957 is expected to rise

(Continued on page 8)

THE SECOND ERA OF TOLL ROADS

JOHN F. DUE, Professor of Economics

In the first three decades of the last century a substantial network of toll roads, privately owned and operated, spread throughout much of the settled portion of the country. They provided the only routes for through intercity travel, and the major roads were crowded with stage coaches, freight wagons, and droves of cattle. But they vanished almost as quickly as they came, victims primarily of the railroad. The companies failed, their right of ways reverted to the states and in turn were given to the local governments for use as access roads. By 1870 even the great National road from Cumberland to Vandalia, the Federal government's only major contribution to early roadbuilding, had degenerated into barely passable rural byways.

The Revival of Toll Roads

As is well known, when the automobile revived the demand for good roads, the principle of free roads, eventually financed largely by benefit-based levies on road users, became universally adopted, except for major bridges. By the thirties it appeared that this system was proving, in general, to be an adequate one for highway development. But by the end of the decade interest in possible use of toll roads was reviving. The first major project, the Harrisburg-Pittsburgh section of the Pennsylvania turnpike, was conceived in large part as an unemployment-relief measure and on this basis was aided financially by Federal grants. The success of this turnpike, which replaced particularly unsatisfactory roads, led other states to consider the possible use of the toll principle. In the postwar era, and particularly after 1950, there occurred a rapid increase in toll road construction. As of February 1, 1957, there were approximately 2,400 miles of toll roads in operation, and 850 miles under construction.

The toll network is shown in the accompanying chart. The major routes include:

1. The New York-Pittsburgh-Chicago route, including the New Jersey, Pennsylvania, Ohio, and Indiana turnpikes, and a short stretch in Illinois under construction.

2. The New Jersey-New York-New England routes, including the Garden State parkway, the New York throughway from New York City to Buffalo, and routes in Connecticut, Massachusetts, New Hampshire, and Maine.

3. The routes in the southwest, intended as links in a major network, most of which has never been built. The actual routes extend from Oklahoma City to Tulsa and the Missouri border near Joplin; from Kansas City to Wichita and the Oklahoma border; and from Fort Worth to Dallas.

4. Isolated segments in Colorado (Denver-Boulder), West Virginia (Charleston-Princeton), Florida (Miami-Fort Pierce, projected northward to Jacksonville), Kentucky (Louisville-Elizabethtown), and Virginia (Richmond-Petersburg).

Reasons for Toll Principle Revival

Why did the states return to the use of the toll principle? In general, the explanation lies in their inability, in the postwar period, to finance certain urgently needed and very expensive routes by traditional means. The lag in construction during World War II created a backlog of highway projects, and the very rapid increase in the

TOLL ROADS IN THE UNITED STATES,
FEBRUARY 1, 1957

use of motor vehicles in the last decade caused serious congestion on many routes. Total vehicle miles doubled between 1940 and 1955, with a disproportionate increase by larger vehicles. Truck ton-mileage increased 3½ times over this interval. Many major routes were becoming increasingly obsolete, because of design and curvature, routing through city streets, and growth of roadside businesses. In many instances two lane pavements were inadequate, but the cost of widening existing roads was virtually prohibitive. The index of highway construction costs increased 2½ times between 1940 and 1956. In the face of this growing need, the state legislatures were unwilling to raise the gasoline tax rates even sufficiently to keep pace with inflation; the weighted average increase in the tax was only 27 percent between 1941 and 1954.

Furthermore, rate increases alone would not solve the problem. The urgent highway needs were concentrated on a relatively few heavily traveled roads and urban expressways. But state highway revenue allocation formulas funneled a large portion of the funds to rural roads for which the need was much less, and the legislatures were reluctant to change the formulas, partly because of domination by rural representatives, partly because many needed routes served only limited areas of the states.

The adoption of the toll method allowed the building of the most urgently needed, expensive routes quickly without the need for gas tax or allocation formula changes, with the cost imposed upon those particular persons who directly benefited. The financing by borrowing permitted the construction of the roads as a unit, rather than piecemeal, and thus immediate use of the entire route was obtained. To some states the toll method was particularly attractive because it placed a large part of the cost on out-of-state motorists, who were contributing much to the congestion, but little to the state revenues.

Features of the Toll Systems

The major features of the toll road system can be summarized briefly. All have been built by state agencies, specifically, in almost all cases, by special turnpike authorities. A plan for private construction and operation in Texas was abandoned. Toll charges vary with mileage, the typical charge being 1 to 1½ cents per mile, the equivalent of an additional gas tax of about 15 to 20 cents per gallon. The total toll from the Chicago area to New York City is about $11. The charge for trucks varies with weight, ranging typically from 4 to 6 cents a mile for large vehicles. The tolls have been set primarily on the basis of estimated revenue maximization and have been varied only in an effort to improve revenues.

The cost of contruction has averaged about $1.2 million a mile, ranging from around $300,000 to $2 million, with some stretches of the New Jersey turnpike as high as $8 million a mile. At present cost levels, a figure of $1.6 million is typical. The total cost of existing toll roads and those under construction is about $4.4 billion. All of the toll roads are four-lane except the two-lane West Virginia route. The roads have been financed almost entirely from borrowing, for the most part by revenue bonds secured only by the revenues of the toll road. The revenue bonds avoided constitutional debt limits and were more palatable to many state legislatures. On the other hand the interest cost was higher, from .5 to .75 of a percentage point. Because of this factor, New York State and New Hampshire financed their toll roads by general obligation bonds.

The relative importance of passenger car and truck revenues varies widely, truck revenues reaching a high of 65 percent of total toll revenue on the Pennsylvania turnpike, in contrast to 16 percent in Maine and New Jersey. Ohio anticipated 65 percent of its revenues from trucks, but the actual figure was only 30 percent. A significant revenue source has been the charge made for service station and restaurant concessions, which has yielded from 5 to 16 percent of the total revenue.

The End of the Toll Road Movement

The toll road movement reached its peak in 1954 and 1955. In the former year total toll road financing reached a high of $1.2 billion, and in 1955 the figure was $750 million. At the end of 1955 it was expected that from $1.5 to $2.5 billion of toll road bond issues would reach the market in 1956. In addition to the 3,250 miles built or under construction, at least 2,220 miles were authorized, and more than 1,000 miles were under consideration; had all this mileage been built, the total would have reached nearly 7,000 miles. At times the toll movement reached almost mania stages, with projects discussed which could not possibly have paid for themselves.

The bubble burst suddenly in 1956. The actual financing in that year was $178 million, and new projects started during the year were one in number — an 8-mile section! Many authorized projects, involving at least 1,500 miles, were permanently or temporarily shelved. As shown on the chart, as of February, 1957, beyond the routes under construction, only the extension of the Florida turnpike, of all projected routes, shows any definite likelihood of being built on a toll basis.

Several major factors brought a temporary, if not permanent, end to the toll road movement. The first was the tightening of the money market during the year, which made the raising of funds more expensive. More significant, however, was the rather poor financial showing of some of the routes. Most of the earliest turnpikes, such as those of Pennsylvania and New Jersey, had been even more profitable than expected; the New Jersey turnpike traffic has been doubled the estimated volume. Even the Maine route, the weakest of the first projects, managed to cover costs and interest after toll revision. But the routes opened late in 1955 and 1956 were disappointing. The Pennsylvania extensions, and the Ohio, Indiana, Kentucky, and Kansas turnpikes showed financial results below estimates. A major downward toll revision was necessary in Ohio to end a truck boycott and obtain needed revenues. The most disappointing results were to be found in West Virginia, partly because of the failure of adjacent states to build feeders. Earnings in that state are inadequate to cover interest, and bond default is regarded as likely. These results served as a sharp warning that additional routes with less traffic potential than the existing routes could not be expected to cover costs.

The final blow was struck by the passage of the Federal-Aid Highway Act of 1956. This act provided for Federal grants of roughly $2 billion dollars a year for the financing of 90 percent of the cost of the 41,000-mile network of interstate and defense highways, to cost a total of $30 billion over the next thirteen years. The present Federal highway program was retained and the sums of the Federal grants (on a 50-50 basis) increased. The act provided specifically that the toll roads may be included in the 41,000-mile network, and many undoubtedly will be. But expenditure of granted funds for building or improving toll routes is specifically prohibited. The act provides for a study of possible reimbursement to the states of funds spent since 1947 on new toll or free highways.

The Future of the Toll Roads

The Highway Act created some fear about the future of existing toll roads, and further depressed toll road bonds. But it eventually became clear that many of these fears — particularly that new free highways would be built parallel to the toll roads — were groundless. Now, nine months after the enactment of the act, the following observations can be made about the apparent significance of the Highway Act for the toll road movement:

1. The financial position of the existing routes will be improved as free feeder routes are built under the Federal program. Parallel free highways will certainly not be built, although in some instances more distant parallel routes may divert limited amounts of traffic.

2. The building of new toll roads in addition to routes under construction is very unlikely in the immediate future, if at any time, since the routes most suitable for the toll principle will receive high priority under the Federal program.

3. The present toll routes may eventually be freed from tolls. If the Federal government decides to reimburse the states for the toll routes, it will be possible to convert them quickly into free highways. There is likely to be substantial pressure on Congress to provide funds for this purpose; as new free superhighways are built under the Federal program, areas in which toll roads are in operation will claim discrimination.

As the net effect of the Federal program became clearer, and the earnings pictures of many of the routes improved, the toll bonds gradually recovered in price, particularly in January of 1957. For example, Ohio turnpike bonds, which are representative, had fallen from 103 on January 2, 1956, to 83 in December of 1956 (an increase in yield from 3.11 to 4.17 percent), but rose to 91 by February 5, 1957. Except for issues like West Virginia, where there is some danger of default, the net increase in yield over a year ago is now merely a reflection of the general increase in interest rate levels.

Conclusion

The apparent end of the toll road movement is regarded by many as desirable. While the use of the toll principle allowed the early construction of some of the most important and urgently needed routes, it offers no magic advantage over the traditional methods of highway finance. The costs of collection, although as low as 3 percent on the busy Pennsylvania turnpike, reach 10 percent in Maine and 15 percent in Colorado — far higher figures than the cost of administering the gasoline tax. The net interest cost is substantial, especially with revenue bonds. The toll system can be used only on limited routes; even before the Federal highway program, the toll system had probably gone about as far as it could go and continue to be self-supporting. A vehicle movement of 4,000 to 5,000 a day is required for self-support, and a relatively limited mileage of through roads offers this amount. The toll method increases the total costs of construction, since existing routes cannot be utilized at all, and rigid limit to access is required. The toll system is particularly unsatisfactory on urban expressways, where the need for very expensive improvements is the greatest, because of the short trips, the need for many access points, and the peak-load nature of the traffic. Finally, the use of the toll method has postponed the need, in many states, for urgently needed changes in highway user tax rates and highway revenue allocation formulas, which would otherwise have become imperative.

Keeping Taxes High

(Continued from page 2)

penditures at this juncture would accentuate the overall weakness already apparent and react adversely on the segments of private investment that have continued strong up to this point. If the private economy weakens, certain kinds of government spending would have to rise faster. It is said that the budget for 1958 makes a start on some programs that could be expanded if they were needed to stimulate the economy. But higher spending, combined with lower receipts from a weakening private economy, would make the reversal in Federal finances extreme.

If the budget view of the situation proves correct, the surplus available for tax reduction will be small. It now seems unlikely to reach the $3 billion level specified by Secretary Humphrey as the minimum that would justify tax reduction. In this event, disagreement over the form of tax reductions would limit the possibility of action. Each group of taxpayers tends to regard its own position as particularly unfavorable and would like to have its own pet inequities eliminated. Labor, subject to withholding and unable to use tax-avoidance devices, wants reductions at the lower end of the scale, in part through reinstatement of the "earned income" deduction. Others, in the higher income brackets, want reductions in surtax rates which they regard as "confiscatory"; the TV quiz programs have dramatized their problem for the public.

If the budget position worsens, the need for all available revenues will tend to preclude general tax cuts. The case for any tax cutting would then rest upon its contribution to supporting the economy. Any tax cut has something of this effect, of course, but those best adapted to this objective are not the kind desired by the strongest advocates of tax reduction. The most effective change for reducing the burden of taxes on consumption would be to raise personal exemptions. This would be welcomed by many at the lower end of the scale but is not regarded with enthusiasm by those further up.

Recent reports from some Washington observers to the effect that tax reduction is certain in 1958 do not appear to be well founded. General cuts would seem to be possible only with a substantial reduction in the overall budget, which means primarily in military programs. The Hungarian revolt has upset the Russian peace offensive and re-created a situation that bars such relaxation. The Suez affair is shifting the burden of Western defense more completely to us. What the President euphemistically describes as "waging peace abroad" is the most important factor in keeping taxes high.

VLB

Recent Economic Changes

(Continued from page 5)

from $7.9 to $8.4 billion, the latter consisting of $5.2 billion of bonds and notes, $1.7 billion of equity financing, and $1.4 billion of bank loans. In manufacturing, plans are to reduce bond issues and bank borrowing and to increase equity financing slightly. Total external financing of $4.2 billion is anticipated, compared with $5.0 billion last year. For utilities the situation is somewhat different. Bond and bank borrowing are expected to be higher and stock financing about the same as 1957. As a result of increased borrowing, utilities expect to increase their demand for external funds to $4.1 billion from $2.1 billion last year.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Sinking Profit Margin

Retailers in the automotive industry are still hoping that 1957 will prove to be a more prosperous year, as final 1956 tabulations for all dealers showed that combined operating profits were only eight-tenths of 1 percent of sales before any provision was made for Federal income taxes. The National Automobile Dealers Association stated than in only one year since 1940 had the profit ratio been lower — in 1954 when the average dropped to six-tenths of 1 percent. In 1956, 3 dealers out of 10 reported an operating loss.

According to the National Automobile Dealers Association, the unfortunate profit experience resulted almost completely from failure to maintain a sufficient gross margin from new car sales to cover the actual cost of selling and servicing them. Gross profit amounted to $716 per new unit retailed — $403 per new unit sold from combined new and used unit sales plus $313 per new unit from service, parts, and other sources. A total operating expense of $677 left an operating profit of only $39 per car.

Maps for All Purposes

For the motorist, vacation planner, or information seeker, the recently published Rand McNally road atlas will prove helpful. Within its 120 pages can be found information about toll roads, turnpikes, and locations of approximately 78,000 cities and towns. This atlas is available for $1.75 from Rand McNally and Company, Box 7600, Chicago 80.

Country orientation may be made more readily with the aid of the new 16-inch Replogle world globe. Weighing about 8 pounds, it features an action mounting that permits the globe to be swung forward and backward to get a full view of either the North or South Pole. Further information is available from Replogle Globes, Inc., 1901 N. Narragansett Avenue, Chicago 39.

A three-dimensional relief map of the world, lithographed in 10 colors and measuring 61 by 42 inches, can be decorative as well as useful in the schoolroom, office, or home. This two-pound map has been formed from Bakelite rigid vinyl sheet. Time zones, geographic data, and political information are included on it. Retailing for $47.50, the map may be purchased from the Aero Service Corporation, 210 E. Courtland Street, Philadelphia 20, Pennsylvania.

Phones for Farmers

For the first time in history, more than one-half of the farms in the United States have telephone service, according to the results of the annual July survey made in 1956 by the United States Department of Agriculture. This ratio has climbed steadily from 25 percent in 1940 to nearly 52 percent in 1956. On the other hand, in the 20 years prior to 1940 this ratio had declined nearly 14 percentage points.

All states and geographic regions showed increases since the 1955 survey. The South Atlantic and South Central regions, the only regions with a farm telephone population of less than 50 percent, showed the greatest percentage and absolute increases.

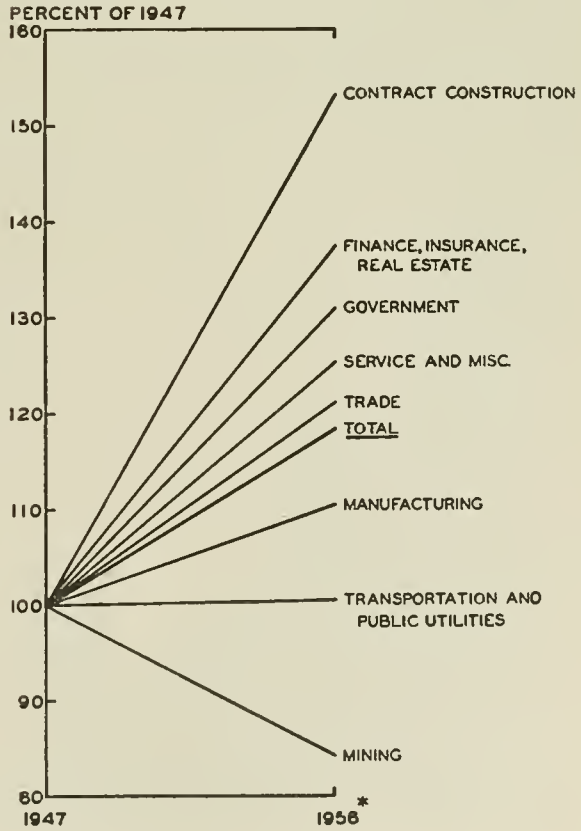
Monthly charges for local phone service were at an all-time high of $3.66 per farm phone. Charges ranged by region from $4.60 in New England to $2.99 in the West North Central area, where farmer-owned lines are still relatively numerous. The Department of Agriculture attributes much of the regional variation in cost to the differences in type and quality of services provided to farmers.

Nonagricultural Employment

Total nonagricultural employment rose to a new high in 1956 with a monthly average of 51.5 million, according to the United States Department of Labor. This was a gain of 1.5 million over the previous high in 1955 and 8 million above the 1947 average. Nonmanufacturing industries accounted for four-fifths of the increase since 1947 and represented two-thirds of the total nonagricultural employment in 1956. The manufacturing industries, averaging slightly less than 17 million in 1956, recorded an increase of 1.6 million. Durable goods dominated the picture with a gain of 1.4 million.

The greatest relative change over the 10-year period was recorded in contract construction, which increased more than 53 percent (see chart). Mining, on the other hand, reported a decrease of nearly 16 percent and was the only industry with an employment decline. A cut in coal production of about 50 percent more than offset gains in the other mining industries.

NONAGRICULTURAL EMPLOYMENT, 1956
(Monthly averages)



*Preliminary.
Source: U. S. Department of Commerce.

LOCAL ILLINOIS DEVELOPMENTS

Fewer working days and other seasonal factors led to declines in most of the Illinois business indicators during February. Decreases of more than 10 percent were recorded for electric power, coal, and petroleum production and bank debits. However, construction contract awards increased by almost one-fifth and slight gains were reported for two other indicators — consumer prices and seasonally adjusted department store sales.

Comparisons with the same period a year ago are generally more favorable. Life insurance sales increased by one-fifth, and business loans were up more than one-eighth. On the other hand, coal production declined almost 12 percent.

Coal Production

Reaching a five-year high of 48 million tons, the 1956 output of bituminous coal and lignite in Illinois gained 14 percent over the 20-year low of 1954 (see chart). On the other hand, a downward trend in coal production, emphasized by the severe drop in 1949, has been evident since the World War II upsurge. A temporary boom during the Korean War was followed by declining production levels through 1954.

Retaining its fourth-rank position (Kentucky bumped Illinois from third place in 1946), Illinois has produced approximately one-tenth of the nation's total bituminous coal since 1947. Nearly three-fourths of the nation's 500 million tons in 1956 was produced by the top four states — West Virginia, Pennsylvania, Kentucky and Illinois.

Preliminary 1955 figures for Illinois indicate that three-fifths of the mining was underground and the remainder was strip. The average value per ton varied with the mining method; for underground-mined coal it was $3.71 per ton as compared with $3.57 per ton for strip-mined. The over-all average was $3.66.

BITUMINOUS COAL AND LIGNITE PRODUCTION, ILLINOIS

Source: U. S. Department of the Interior, *Mineral Industry Surveys.*

Spring Planting

Prospective plantings for Illinois are down slightly from last year as farmers plan a 3 percent reduction in acreage for corn, the major State crop. The Illinois Cooperative Crop Reporting Service has reported that in addition to the cut in corn plantings to 8.6 million acres, the lowest since 1950, a decline of 6 percent is estimated for both hay and oats. A total of 3.0 million acres of oats sets a record low for the last 50 years.

Partly offsetting these reductions is an expansion of 6 percent to an all-time high of 5.1 million acres in soybeans, the second most important crop in the State. Having less effect on the over-all acreage are expected increases in winter wheat, barley, and rye.

Water Projects

Southern Illinois will undergo a "face-lifting" if a majority of the flood control and navigation projects proposed by the Corps of Engineers are authorized. Suggested improvements relate to four rivers — Kaskaskia, Cache, Saline, and Big Muddy-Beaucoup Creek. The largest project by far is the Kaskaskia basin flood control plan. Two phases of this plan have already received congressional authorization — the Carlyle dam and reservoir at an estimated cost of $33 million and the Carlyle-New Athens levees at $9 million. Phases awaiting authorization are the Shelbyville dam and reservoir ($23 million) and the Cowden-Vandalia levees ($5 million).

A preliminary examination is under way to determine the possibilities of flood control and drainage improvements for the lower Cache. On the Saline, a $6 million flood control project has been recommended. Although a preliminary examination concerning canalization of the Big Muddy River and Beaucoup Creek has been completed and engineering feasibility determined, a detailed study of the economic worth is necessary.

Two other projects of consequence in Southern Illinois are the proposed Rend Lake near Benton in Franklin County and Devil's Kitchen dam in the Crab Orchard National Wildlife Refuge between Carbondale and Marion. Rend Lake costs were estimated at $19 to $22 million. If carried through, the project would be handled by the sponsoring Conservancy District. More progress has been made on the Devil's Kitchen dam. Begun prior to World War II, work will continue this spring with the $2 million appropriated and possibly another $1.3 million that is awaiting final authorization.

State water projects not under the jurisdiction of the Corps of Engineers include several prospective lakes. The two counties most certain of legislative grants have already selected sites and started land acquisition. These sites are Rock Cut in Winnebago and Sleepy Fox Hollow in Randolph.

NOTE: Bank debit figures for Decatur (p. 11) include debits of two additional banks beginning with January, 1957. It is estimated that 1956 totals would be increased by approximately 4 percent; this adjustment has been made in 1956 data for year-to-year comparisons.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$41,255[a]	1,182,284[a]			$14,035[a]	$13,491[a]
Percentage change from Jan., 1957	+48.6	−0.5		−7	−14.2	−3.6
Percentage change from Feb., 1956	+43.3	+6.3		+5	+3.3	
NORTHERN ILLINOIS						
Chicago	$33,294	900,125			$12,831	$11,660
Percentage change from Jan., 1957	+35.7	−0.0		−7	−14.1	−1.5
Percentage change from Feb., 1956	+70.2	+6.2		+4	+3.2	
Aurora	$1,251	n.a.			$ 56	$ 129
Percentage change from Jan., 1957	+627.3			−2	−13.2	−7.4
Percentage change from Feb., 1956	+555.0			+4	+5.9	
Elgin	$ 158	n.a.			$ 37	$ 95
Percentage change from Jan., 1957	+129.0			+4	−9.2	−6.9
Percentage change from Feb., 1956	+182.1			+2	+8.8	
Joliet	$1,418	n.a.			$ 71	$ 86
Percentage change from Jan., 1957	+1,458.2			−4	−14.2	−31.4
Percentage change from Feb., 1956	+327.1			−2	+5.0	
Kankakee	$ 137	n.a.			n.a.	$ 44
Percentage change from Jan., 1957	+80.3			n.a.		−15.3
Percentage change from Feb., 1956	−53.1					
Rock Island-Moline	$ 436	23,663			$ 86[b]	$ 161
Percentage change from Jan., 1957	+54.1	−3.7		n.a.	−15.2	−5.0
Percentage change from Feb., 1956	−50.1	−7.1			+4.8	
Rockford	$ 742	50,324			$ 166	$ 214
Percentage change from Jan., 1957	+9.4	−2.2		0	−10.2	−21.8
Percentage change from Feb., 1956	+1.5	+26.7		+23	+3.5	
CENTRAL ILLINOIS						
Bloomington	$ 82	8,488			$ 55	$ 97
Percentage change from Jan., 1957	+156.3	−2.3		n.a.	−25.5	+5.0
Percentage change from Feb., 1956	−43.4	+1.9			+6.0	
Champaign-Urbana	$ 211	11,002			$ 61	$ 77
Percentage change from Jan., 1957	+32.7	−3.0		n.a.	−16.9	−33.7
Percentage change from Feb., 1956	−21.6	+1.2			+4.9	
Danville	$ 106	11,904			$ 46	$ 54
Percentage change from Jan., 1957	−40.8	−0.8		+11	−22.0	−21.7
Percentage change from Feb., 1956	+63.1	+10.2		+9	+1.0	
Decatur	$ 888	34,967			$ 107	$ 111
Percentage change from Jan., 1957	+196.0	+5.1		0[c]	−17.2	−24.5
Percentage change from Feb., 1956	+91.0	+6.2		+1[c]	−4.4	
Galesburg	$ 170	8,876			n.a.	$ 35
Percentage change from Jan., 1957	+63.5	−4.5		n.a.		−23.2
Percentage change from Feb., 1956	+3.7	+0.9				
Peoria	$ 444	55,287[c]			$ 208	$ 262
Percentage change from Jan., 1957	+2.5	−2.1		+1[c]	−10.0	−6.9
Percentage change from Feb., 1956	−69.4	+6.2		+3[c]	+5.4	
Quincy	$1,567	10,418			$ 37	$ 60
Percentage change from Jan., 1957	+885.5	+5.6		−13	−15.6	−24.8
Percentage change from Feb., 1956	+861.3	+8.7		−16	+6.8	
Springfield	$ 189	32,991[c]			$ 109	$ 276
Percentage change from Jan., 1957	−12.9	−8.7		0[c]	−16.3	+2.4
Percentage change from Feb., 1956	−92.8	+2.7		+3[c]	+6.6	
SOUTHERN ILLINOIS						
East St. Louis	$ 79	12,524			$ 133	$ 57
Percentage change from Jan., 1957	−8.1	+2.7		n.a.	−18.2	−45.5
Percentage change from Feb., 1956	−87.9	−7.8			+11.9	
Alton	$ 60	13,830			$ 33	$ 32
Percentage change from Jan., 1957	−34.8	−6.6		n.a.	−16.1	−27.9
Percentage change from Feb., 1956	−70.1	+4.9			−7.8	
Belleville	$ 23	7,886			n.a.	$ 42
Percentage change from Jan., 1957	−75.8	−2.0		n.a.		−22.9
Percentage change from Feb., 1956	−95.8	+10.8				

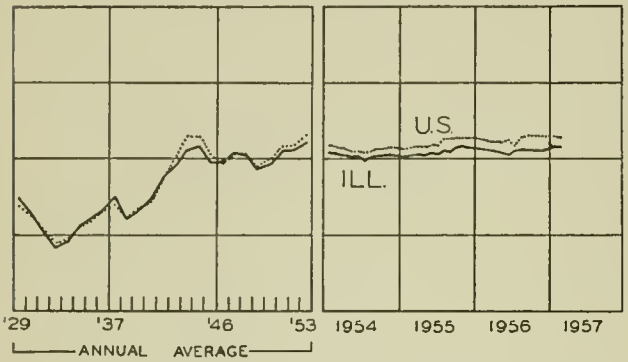
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for January, 1957, are not available. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending February 8, 1957.

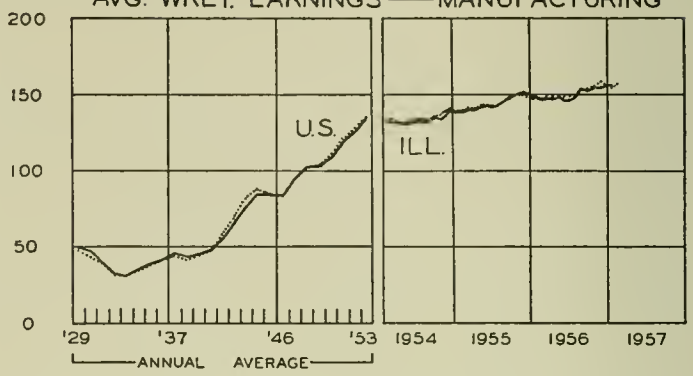
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

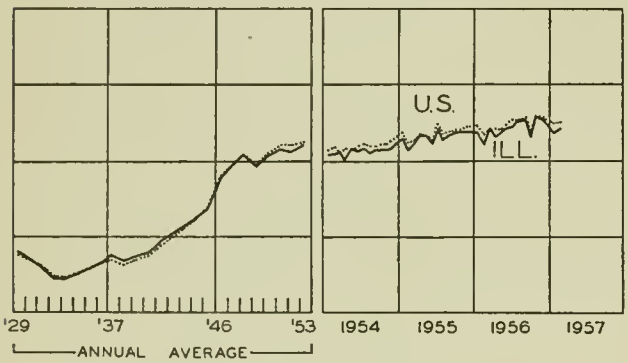
EMPLOYMENT–MANUFACTURING



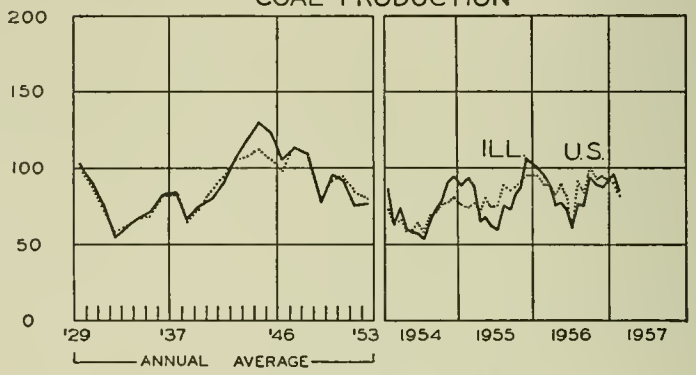
AVG. WKLY. EARNINGS — MANUFACTURING



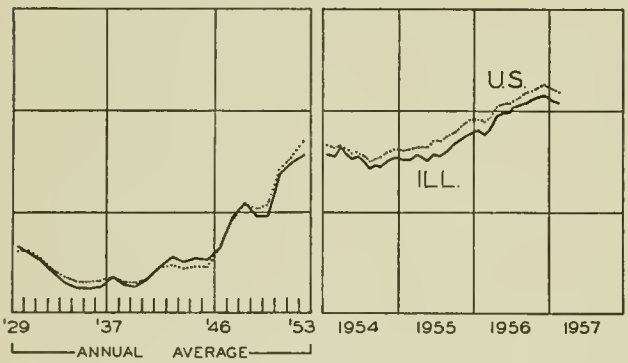
DEPARTMENT STORE SALES



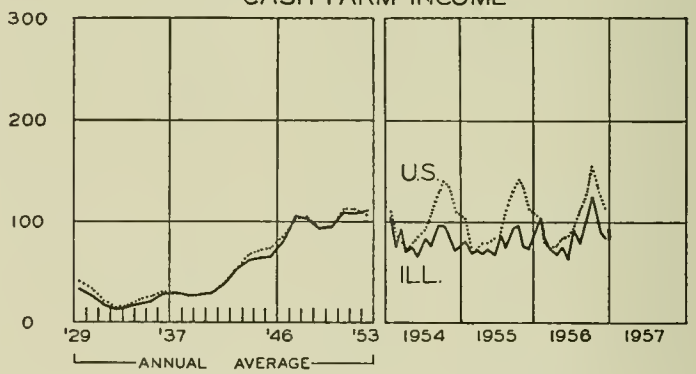
COAL PRODUCTION



BUSINESS LOANS



CASH FARM INCOME



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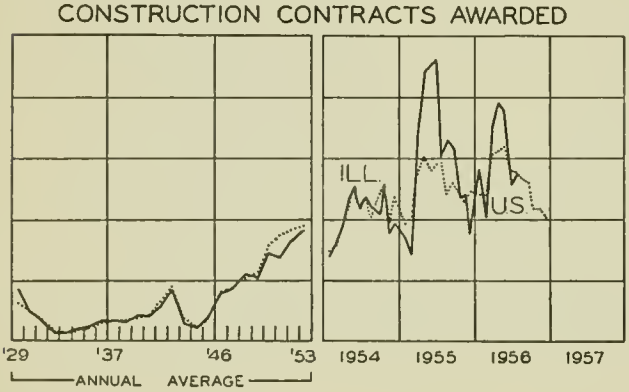

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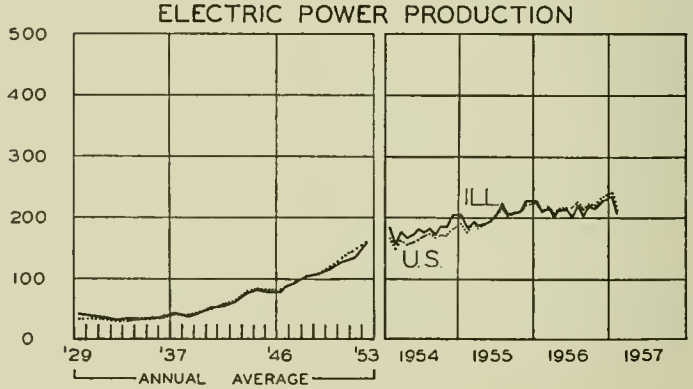

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN APRIL

Business continued to move along a high plateau in April, although further signs of faltering were in evidence. The index of industrial production, after seasonal adjustment, showed a one point decline to 145 (1947-49 = 100) and manufacturing employment fell by 130,000. The upward movement of stock prices was the most notable exception to the general pattern among the leading short-term indicators.

The decline in industrial production and in manufacturing employment reflected decreases in a number of important segments. Steel experienced further reduction in operations as the anticipated spring increase in orders by auto manufacturers failed to materialize. Output of motor vehicles fell below March and goals for the year were subjected to readjustment downward. Declines in electric power output in the latter part of the month associated with reduced industrial activity wiped out gains made in March and carried further in early May. Carloadings, with allowance for seasonal factors, were down from March and were well below the previous April. Comparisons of 1957 first quarter production with first and fourth quarter 1956 are presented on page 5.

Department store sales in April appeared to be well below March and about the same as last April after adjustment for the late Easter and other seasonal factors. Sales for the year through April 27 were 2 percent above the corresponding period a year ago. When allowance is made for price increases over the year, it is evident that physical volume of the big stores has fallen.

Construction Up Seasonally

Spending for new construction increased seasonally by 10 percent in April to $3.5 billion, reflecting gains of 6 percent in private and 20 percent in public construction. Outlays for new dwellings and for public utilities made the biggest gains in the private sector, while schools and highways led in the public sector.

The value of new construction put in place during the first four months of this year amounted to $12.5 billion, an increase of 2 percent over the same period last year. The gain was entirely the result of expanded public construction, private outlays having declined 1 percent over the year. Total physical volume of construction was down somewhat, since prices rose distinctly more than expenditures. The decline in private construction spending during the year was primarily the result of an 11 percent drop in outlays for new nonfarm dwellings and 17 percent for store building. These were largely offset by gains in industrial and most other types of nonresidential building and in public utilities construction. Increases of 2 to 45 percent were made in all segments of public construction, with the major gains being made by schools, sewer and water systems, and conservation projects.

Consumer Debt Down Slightly

Total consumer debt declined by $10 million in March as a gain of $40 million in installment debt was more than offset by a decline in noninstallment debt.

The increase in installment debt was only a fifth as large as that of the previous March and less than a tenth as much as in March, 1955, but all three ran counter to the seasonal pattern. The recent expansion reflected net additions to outstanding automobile paper of $91 million and to personal loans of $61 million; these more than compensated for declines of $107 million in other consumer goods paper and $5 million in repair and modernization loans. Noninstallment debt declined by $50 million as charge accounts fell $162 million while single-payment loans rose $94 million and service credit $18 million.

Manufacturers' Sales Down

On a seasonally adjusted basis, manufacturers' sales of $28.9 billion in March showed a decline of $200 million from February, although they were still 5 percent above March of last year. All of the decline in the month came in durable-goods industries.

Inventories of manufacturers continued their upward drift in March, reaching a total of $52.2 billion on an adjusted basis. The increase of $350 million over February was about evenly divided between durable- and nondurable-goods industries. New orders of $27.8 billion, when seasonally adjusted, were 1 percent below the preceding month and 3 percent below January, all of the decreases from February to March coming in the durable-goods industries.

Seasonal adjustment of sales by wholesalers and by retailers revealed a slight contraction between February and March. After a similar allowance for seasonal factors, inventories of retailers were down $200 million from February, while those of wholesalers were unchanged.

EFFECTS OF TIGHT MONEY ON HOME BUILDING · · E. P. Lotshaw · · Page 8

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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The Position of Great Britain

The British government has recently published its annual Economic Survey and a "White Paper" on the new defense plan to be put into effect over a five-year period.[1] These publications are very revealing as to the position of Great Britain, and they have implications of far-reaching significance for American policies as well. In each case, the official presentation tends to put the best light on the conditions and policies described. Less favorable interpretations may be placed on many points, and when this is done, it is possible to perceive signals of danger against which the Western world should try to be prepared.

Survey of Disinflation

In the Economic Survey the discussion of recent developments runs largely in terms of what policy did or did not accomplish. This tends to divert attention from the fact that many things simply happen, for reasons beyond control, and often in spite of policies rather than because of them. The extreme surge of the investment boom through 1955 was of this character, and the subsequent letdown in the latter part of 1956 went distinctly beyond what was considered desirable.

Developments in the United Kingdom have been in large measure parallel with those experienced in this country, though the disturbances of the steel strike and the international turmoil of last fall have extended our investment boom, giving an impression that changes there are running ahead of similar changes here. The question may be raised, Why hasn't the turmoil also extended the boom there? It appears that the revelation of Britain's military and political weakness was a shock to confidence there, whereas our business concerns somehow seemed to gain new assurance as to the desirability of pushing ahead.

The term disinflation implies moving from a state of inflation to one of high prosperity without continuing price increases. In the UK, pressure of excess demand was lifted from most branches of industry, but eliminating it "did no more than moderate the rises in prices and wages." "Retail prices rose about 5 percent between 1955 and 1956, though only about 3 percent during the course of 1956 itself." "Labor costs rose by roughly 10 percent."

With the rise in wages, personal income was sharply higher, but there was very little increase in consumption. Savings rose by almost half from 1955, to 10 percent of disposable personal income in 1956.

After allowance for the effects of price increases, output showed no significant advance over 1955. Less than one-fourth of a 7 percent increase in gross national product remains when the data are put on a constant price basis. "Whatever increase there was seems to have come from agriculture and from increased activity in distribution — not from industry." Manufacturing output fell slightly, by just over 1 percent. Manufacturing employment was also lowered in a mild industrial recession. Unemployment rose by over 100,000 from early 1956 to early 1957, but was still only 1½ percent of the labor force.

Fixed investment as a whole was higher in 1956, although residential construction declined. Most of the increase took the form of new plant and equipment for private industry, and on the whole, industry was working somewhat below capacity during the year.

A brief summary of developments, which applies to our situation as well as theirs, is as follows: Production has leveled off but investment in plant and equipment has continued at a high rate, progressing toward the accumulation of excess capacity. Final demand in physical volume terms has slackened, but wages and prices have continued up.

These are not the conditions of stable prosperity without inflation. They are typical of the final stages of a business boom, in the course of which producers have wishfully come to persuade themselves that they can prosper by raising prices even though growth in the demand for their products is no longer in evidence. Viewed in this light, the Economic Survey's conclusion as to prospects for this country seems but a forlorn hope: "Generally speaking, no great change from the present prosperous conditions seems likely, one way or the other."

Some Aspects of International Relations

The most encouraging change in Britain's position in 1956 was the improvement in its export trade. Not only did exports advance sharply, but the gains were of the kind desired — largely in capital equipment and in trade with North America. With imports holding about level, the net foreign balance on current account shifted from a substantial deficit to a surplus about three times as large, representing a total swing of close to $900 million.

Even this happy result bears qualification: Total world trade increased even more rapidly, so that Britain's share declined. Recent developments — such as intensified competition, the appearance of excess capacity in other countries, and the formation of the Common Market — offer no assurance of continued gains. "Moreover, with the crisis of confidence over the Suez adventure, there was a considerable outflow of miscellaneous capital and big reductions in overseas holdings of sterling. Britain suffered large losses of gold and dollars. . . . The political adventure cost the reserves more than a virtuous year of disinflation had increased them."

The failure of the Suez adventure was largely due, of course, to United States opposition. The British did not accept our State Department's view that Nasser could

(Continued on page 6)

[1] Articles in *The Economist* summarize and discuss these papers: "Survey of Disinflation," April 6, and "Towards Collective Defense," April 13. Quotations under the corresponding headings are from these articles.

ASSEMBLY-LINE HOMES

The word "prefab" may have stood for the "bargain basement" of architecture a few years ago. But today "prefabs" are no joke. Last year one out of every 10 new one-family houses and one out of 12 new houses sold were prefabricated.

There are various definitions for "prefabs" but the broadest, which fits all types, specifies that some cutting and assembling of the framework is done in a factory before reaching the site of erection.

Although the prefabricated home is considered by the average citizen to be a postwar innovation, its idea is not new. Historians cite Biblical references to it. It is known that Hannibal carried prefabricated barracks to Spain when he invaded the Iberian peninsula in 231 B.C. One of the earliest prefabricated homes to be constructed in this country was that erected by Thomas Edison in 1886 at Fort Myers, Florida, where he spent the winters.

There have been numerous attempts to establish prefabrication as conventional procedure in this country in the last 75 years, and one firm has been continuously in business for 65 years. But prefabrication did not gain much importance until transportation facilities, market acceptance, and financing and production techniques jelled together in a workable combination about a score of years ago.

Factors in Prefab Growth

A major point favoring today's prefab is that the cost is often somewhat lower than that of conventional houses. Because prefabricators can mass produce certain pieces through improved methods of precision-cutting, assembling, and so on, their product can be shuttled from factory to site and fully completed within an average of four to five weeks. This rapid transition from raw board to a turn-key product means quicker turnover for the manufacturer and a lower price for those consumers who live near the source of supply. However, when long distances are involved the savings are gobbled up by shipment costs.

The buyer may purchase a prefab anywhere in a wide price range. Prefabricated homes varied from $4,700 to $40,000 in 1955, excluding cost of land. The most popular models were in the $8,000-$12,000 bracket. In the same year, new one-family houses of all types were concentrated in the $12,000-$20,000 price range.

Another favorable point is that the prefabs have eliminated the telltale earmarks of a factory-built home. The "box-like" look is gone. Numerous variations from basic walls, roofs, ceilings, and partitions may be introduced at the site. And the prefabricators can provide nonfactory features such as brick or stone veneer and a variety of colors and floor plans.

The Prefabricated Home Manufacturers' Institute reports that, in almost all cases, financing the purchase of a prefab house is no more difficult than financing other types of new housing. Experience of the past decade has shown that lenders are becoming more responsive to prefab buyers. They know in advance the exact quality of the house they are financing, because prefabs are designed, engineered, and manufactured in accordance with exacting factory standards. Shortly after World War II, lenders were somewhat skeptical of prefabs largely because of the unsatisfactory prewar experience with panel products. For this reason, many manufacturers were forced to establish their own financing companies. A recent survey by PHMI indicates that nearly one-fourth of its members still maintain these companies.

Finally, the prefab industry must give partial credit for its success to the general postwar housing boom. The high construction activity has been related to increases in population, rising per capita income, shifts in population, and a prosperous economic climate in which home buyers expect continuing job prospects. These prosperous conditions were closely coupled with general availability of credit in the form of low interest rates and long-maturity mortgages.

State and National Developments

About 300 companies are turning out prefabs today. Most make fewer than 500 a year but the biggest turns out more than 20,000. Since 1946 some 621,000 prefabs have been sold and nearly two million people live in them. Last year, 94,000 were produced, 10 percent of all new single-family dwellings.

Although prefabricated homes have gained national acceptance, the great prefab belt is located in the Midwestern states. Illinois is the center of this belt. The State had 10 prefab manufacturers in 1955, and an estimated 15 additional manufacturers employed assembly-line techniques but did not consider themselves "true" prefabricators.

Illinois ranks higher in prefab houses put in place than in number of manufacturers. It ranked fourth in total number of "true" prefabricators but was second in the nation in total prefab homes put in place with 7,954 in 1956, an all-time high for the State. The value of these completed homes erected by the State's 600 builder-dealers was estimated at $93 million.

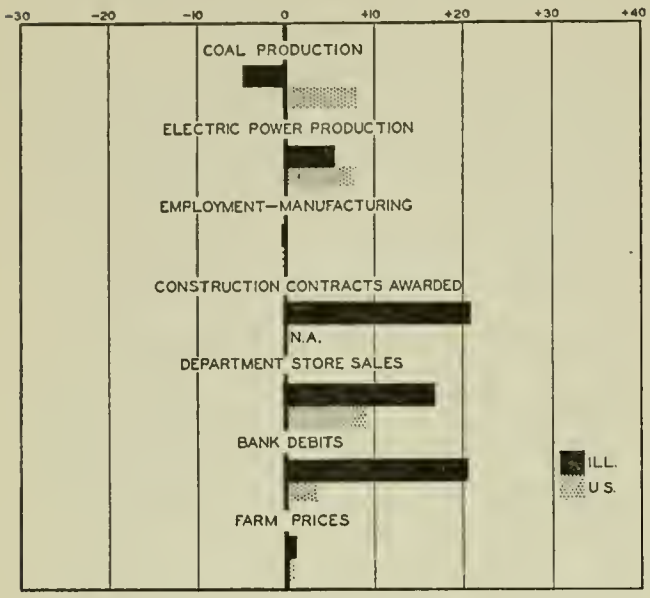
The prefab industry has found entry into the Chicago metropolitan area difficult despite the rapid postwar conventional housing construction rate in this region. Only recently has a toehold been achieved there, starting in 1953 near Carpentersville, where more than 2,000 prefab homes have been constructed to create the community of Meadowdale, 35 miles southwest of Chicago. Since then, numerous subdivisions have been opened in and near Chicago by contractors turned prefabricators. Also, some of the regular prefab manufacturers who sell single units through dealers have moved into the area.

Thus, the postwar era has seen a growing trend toward prefab homes and toward application of newer, more efficient methods provided by prefabrication, both points demonstrating basic changes in construction technology. Methods used by prefabricators are likely to become more widely used because prefabrication is a way in which home builders can gain efficiency.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1957, to March, 1957



N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	March 1957 (1947-49 =100)	Percentage change from Feb. 1957	Percentage change from March 1956
Electric power[1]	219.8	+ 5.6	+ 3.0
Coal production[2]	81.3	− 4.9	− 7.3
Employment — manufacturing[3]	107.7	− 0.2	− 1.2
Weekly earnings—manufacturing[3]	155.5[a]	+ 0.2	+ 5.1
Dept. store sales in Chicago[4]	123.0[b]	+ 4.2	+ 3.4
Consumer prices in Chicago[5]	121.6	+ 0.1	+ 3.3
Construction contracts awarded[6]	370.1	+21.3	n.a.
Bank debits[7]	193.7	+20.7	+ 6.4
Farm prices[8]	76.0	+ 1.3	+ 1.3
Life insurance sales (ordinary)[9]	300.5	+22.1	+28.0
Petroleum production[10]	131.2	+ 9.5	+ 3.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] February data; comparisons relate to January, 1957, and February, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	March 1957	Percentage change from Feb. 1957	Percentage change from March 1956
	Annual rate in billion $		
Personal income[1]	337.6[a]	+ 0.3	+ 6.0
Manufacturing[1]			
Sales	346.8[a]	− 0.7	+ 6.6
Inventories	52.2[a, b]	+ 1.2	+10.8
New construction activity[1]			
Private residential	13.8	− 3.0	− 9.2
Private nonresidential	16.5	+ 2.2	+ 8.8
Total public	14.1	− 3.1	+12.6
Foreign trade[1]			
Merchandise exports	20.1[c]	+ 4.3	+23.1
Merchandise imports	12.0[c]	− 9.8	− 3.3
Excess of exports	8.1[c]	+35.8	+106.8
Consumer credit outstanding[2]			
Total credit	40.5[b]	− 0.0	+ 7.3
Installment credit	31.3[b]	+ 0.1	+ 7.4
Business loans[2]	31.4[b]	+ 3.7	+13.2
Cash farm income[3]	24.0	−20.9	+ 2.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	146[a]	0.0	+ 3.5
Durable manufactures	163[a]	− 0.6	+ 3.8
Nondurable manufactures	131[a]	0.0	+ 2.3
Minerals	135[a]	+ 3.1	+ 4.7
Manufacturing employment[4]			
Production workers	106	− 0.5	− 0.7
Factory worker earnings[4]			
Average hours worked	100	− 0.5	− 1.0
Average hourly earnings	154	0.0	+ 5.1
Average weekly earnings	155	− 0.5	+ 4.1
Construction contracts awarded[5]	n.a.	.....	.....
Department store sales[2]	127[a]	+ 1.6	+ 4.1
Consumer price index[4]	119	+ 0.2	+ 3.7
Wholesale prices[4]			
All commodities	117	− 0.1	+ 3.6
Farm products	89	0.0	+ 2.5
Foods	104	− 0.2	+ 4.5
Other	125	− 0.1	+ 3.6
Farm prices[3]			
Received by farmers	87	+ 1.2	+ 3.6
Paid by farmers	118	0.0	+ 5.4
Parity ratio	80[d]	0.0	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for February, 1957; comparisons relate to January, 1957, and February, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Apr. 20	Apr. 13	Apr. 6	Mar. 30	Mar. 23	Apr. 21
Production:						
Bituminous coal (daily avg.) ..... thous. of short tons	1,700	1,650	1,600	1,762	1,723	1,631
Electric power by utilities ..... mil. of kw-hr	11,485	11,695	11,693	11,694	11,723	10,894
Motor vehicles (Wards) ..... number in thous	143	149	154	153	162	153
Petroleum (daily avg.) ..... thous. bbl	7,551	7,442	7,614	7,786	7,818	7,130
Steel ..... 1947-49 = 100	134	134	135	137	139	143
Freight carloadings ..... thous. of cars	687	674	644	695	686	763
Department store sales ..... 1947-49 = 100	128	122	113	112	113	113
Commodity prices, wholesale:						
All commodities ..... 1947-49 = 100	117.2	117.2	117.0	117.0	116.9	113.6[a]
Other than farm products and foods .. 1947-49 = 100	125.3	125.3	125.4	125.3	125.3	121.6[a]
22 commodities ..... 1947-49 = 100	89.1	89.2	88.5	88.6	88.8	91.9
Finance:						
Business loans ..... mil. of dol	31,547	31,354	31,322	31,443	31,579	27,770
Failures, industrial and commercial ... number	302	308	231	290	318	252

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for April, 1956.

RECENT ECONOMIC CHANGES

Production

Except for a slight upward spurt in December which was eliminated in January, manufacturing production remained unchanged on a high plateau between October and March. As shown by the chart, total manufacturing output in the first quarter was up about 2 percent over its year-ago level, but the gain is attributable mainly to two industries, transportation equipment and machinery. Output of transportation equipment fell sharply in the first half of last year and then recovered in the last half to a December peak that was sustained in the first quarter. On the downside, the larger declines were in textiles and apparel, which tended downward throughout last year, and lumber and lumber products, which have been declining more or less steadily since early 1955.

On the whole, gains from a year ago were not extended from the fourth quarter. Transportation equipment averaged higher, and output of chemicals and petroleum products continued to rise, in part in response to the international situation affecting oil supply. The steady advance in output of machinery associated with the plant and equipment boom evident since mid-1954 was reversed, and declines that were already under way in 1956 continued into the first quarter.

GNP Advance Limited

Gross national product moved up in the first quarter of 1957 to a seasonally adjusted annual rate of $427 billion. The advance of $3.3 billion compares with the 1956 fourth quarter gain of $10 billion and advances of about $5 billion in each of the two preceding quarters.

Personal consumption expenditures continued to move up strongly and government expenditures contributed considerably to the gain as they did in the fourth quarter. Record exports pushed net foreign investment to $4.0 billion from $2.4 billion in the preceding quarter.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1957	*4th Qtr. 1956*	*1st Qtr. 1956*
Gross national product	427.1	423.8	403.4
Personal consumption	275.0	270.9	261.7
Durable goods	35.9	34.8	34.8
Nondurable goods	136.4	134.7	130.5
Services	102.7	101.4	96.4
Domestic investment	63.3	68.5	63.1
New construction	32.5	32.9	32.6
Producers' durable equipment	32.0	31.5	26.4
Change in business inventories	−1.2	4.1	4.1
Nonfarm inventories only	n.a.	4.4	4.2
Foreign investment	4.0	2.4	.1
Government purchases	84.9	82.0	78.5
INCOME AND SAVINGS			
National income	n.a.	352.1	334.9
Personal income	336.5	333.2	317.5
Disposable personal income	295.4	293.3	280.2
Personal saving	20.4	22.4	18.6

Offsetting the elements of advance was a $5 billion drop in private investment, reflecting the halt in inventory accumulation in the first quarter. In the fourth quarter, accumulation amounted to over $4 billion. Construction expenditures continued downward and outlays for producers' durable equipment rose by only a half billion dollars, the smallest increase since the two-year push to add to capacity got started early in 1955.

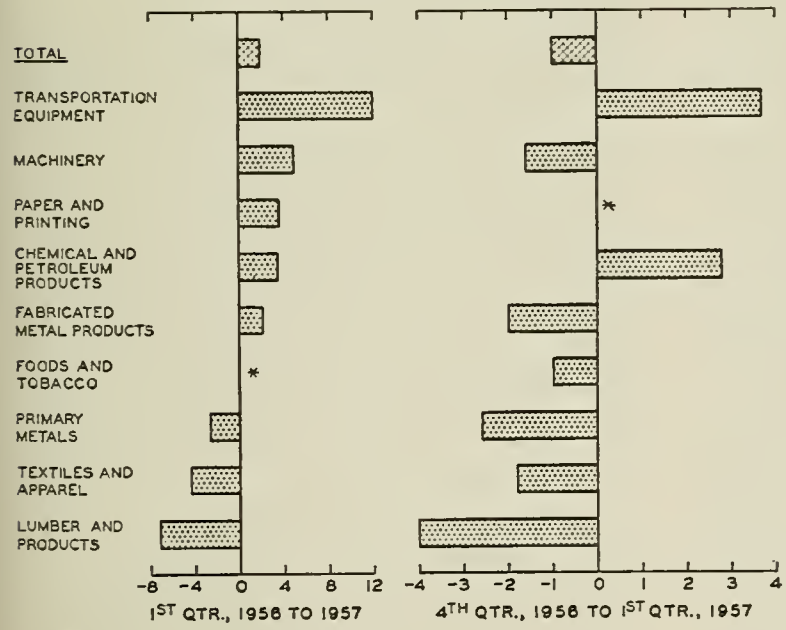
Profit Margins Maintained in 1956

Sales of manufacturing corporations in 1956 totaled more than $300 billion, up about $30 billion from 1955. However, costs and expenses of doing business in 1956 increased almost as much as sales, with the result that profits before taxes rose only moderately last year. After taxes, profits per dollar of sales were about the same as in 1955 — 5.3 cents versus 5.4 in 1955.

The margin of profit for the durable goods group as a whole dropped from 5.7 percent in 1955 to 5.2 percent in 1956. The motor vehicle and equipment group, after experiencing a record year in 1955, had drops in sales and profits after taxes of 12 and 35 percent respectively. As a result, the rate of return on sales declined to 5.2 percent from 6.9 percent in 1955. The iron and steel industry, despite the midsummer strike, experienced higher sales and earnings, but again because of a greater relative increase in operating costs, profit margin dipped from 7.2 to 6.7 percent. The furniture, nonferrous metals, fabricated metal products, machinery, and miscellaneous groups were the only durable goods industries registering improvement in profit margins last year.

In contrast to durables, in the nondurable goods industries, only two major groups, chemicals and leather products, had declines in profit margins. The group as a whole increased its margin of profit after taxes from 5.1 percent in 1955 to 5.3 percent last year.

MANUFACTURING PRODUCTION



* No change.
Source: Federal Reserve Board.

Foreign Assistance

United States foreign assistance programs provided foreign countries with $4.9

billion of goods and services and cash in 1956. This was 8 percent more than in 1955, as both military and other transfers increased during the year. Military grants and credits accounted for about 55 percent of the total, somewhat more than in 1955.

The increase in nonmilitary assistance resulted from a rise in the sale of agricultural commodities for foreign currencies. Accumulation of unspent currencies amounts in effect to additional short-term credits to foreign countries. By the end of 1956 agricultural commodities amounting to nearly $2 billion had been delivered for foreign currencies since the inception of the program in 1954. At the end of last year, the government held unspent currencies acquired under the programs amounting to $1.1 billion. During 1956 currency expenditures amounted to $500 million, about double 1955. Most of this was converted to nonmilitary grants and credits.

The Position of Great Britain

(Continued from page 2)

be controlled or eliminated by economic pressures alone. They moved to enforce the existing agreement on Suez, but in the face of multiple threats of interference and nonsupport were unable to carry it off.

Our differences with the British may be summed up in two words — colonialism and oil. The nationalization of the Suez Canal occurred in retaliation for joint action by Britain and the United States; but Washington decided to accept the Egyptian case against "imperialist" aggression. We consistently maintain, of course, the right of nations to take over private property with just compensation, but this was not a clear-cut exercise of the right. The Suez Canal was a facility vested with public interests extending far beyond the Egyptian borders. Nasser's promise of compensation could no more be depended upon than the agreement he abrogated. In fact, the only real compensation possible — namely, unrestricted passage through the Canal on reasonable terms — was better guaranteed before he acted.

The desire to enlarge our industry's control over Near East oil reserves represents in many ways a more plausible explanation for our policy. Unfortunately, the course of that policy does not offer any assurance of control. Our stand rules out international police action by the United Nations as well as by individual countries. It is an invitation for have-not countries to gamble for any advantage that might be gained at the expense of others and to play off East against West as best suits the game. This was the difficulty in the first place, and it has not been corrected by the threat of force in the Eisenhower Doctrine. Instead of letting Nasser and his ilk discover that excessive self-seeking may lead to self-destruction, given the existing distribution of power, our policy encourages disruption of the kind of relations that might make peaceful coexistence possible. The semi-comic threats of Panama to take over still another canal put painful emphasis on the whole fiasco.

For Britain, it was more tragedy than fiasco. Their future depends upon fuel and power resources beyond those immediately available. The events of the recent past seem to have demonstrated that there is no overseas source of supply that can be depended upon in an emergency. The only British alternative under these conditions is rapid development of atomic energy sources, and despite warnings of unresolved problems in this area, they have decided to push ahead vigorously toward completion of a greatly enlarged program.

Towards Collective Defense

The new British defense plan is based partly on economic considerations and partly on recognition of the changing character and locus of military power in a world in which "new and ever-more powerful weapons have been succeeding each other at an increasing rate." It is expected that "this plan, while helping to relieve the strain on the economy, will produce compact all-regular forces of the highest quality, armed and organized on the most up-to-date lines."

The basic theory underlying the new plan is what is known in this country as massive retaliation. It places primary reliance upon the threat of atomic destruction as the "great deterrent" to aggression. Britain's role, under this concept, shifts from that of a country with large conventional army and navy forces capable of invading and occupying foreign territory to that of an advance base for rocket launching. Forces may be adjusted in accordance with this concept because the initial outbreak of global war will be so devastating that attempts to plan "broken-back" operations for the following stages are pointless. Thus, there will no longer be a need for conscription; the forces to be maintained will be smaller, but better-trained and specialized in handling the new weapons. Consciousness of the difficulties of supplying these weapons and of their high cost is implicit in the White Paper's statement, "The free world is today mainly dependent for its protection on the nuclear capacity of the United States."

Some spokesmen for the NATO alliance denounced the manner in which the new defense plan was unilaterally announced without prior consultation. It would be farfetched to think that the British have any real interest in breaking the alliance. What has been done in that direction was done by us in the Suez crisis. It would also be mistaken to think that they are reacting in pique to shift the burden to the country with the arrogance to decide whether or not it will support its allies. Nevertheless, the implication is clear that we must accede to a collective effort, mutually planned and determined, or complete our withdrawal into a lone-wolf role.

Assuming that we go along, there is a real danger in going too far in the elimination of conventional arms. In small wars the atomic weapons should still be ruled out, but this is hardly possible if forces and equipment of the older types are not available. The thought that atomic weapons might be used in such situations but restricted to tactical warheads, without resort to the H-bomb, seems but another forlorn hope.

Thermonuclear war in this shrinking world is compared with a duel in a small room, with the contestants armed with grenades. The fighters may for a time confine themselves to their natural physical equipment, but if one is being strangled, he may well decide in desperation that he cannot be much worse off by exploding his grenade behind the other's back.

It would seem that everything should be subordinated to minimizing the risk of irremediable catastrophe. Both sides are now indulging in the practice of shaking their nuclear warheads in the faces of potential enemies — witness the warnings issued by the Russians to countries that are the hosts for our outlying bases.

The British decision leaves them with nothing but the atom. Our policy is headed in the same direction. It makes sense only if we are at the same time acting in other ways to ensure that global war will never be necessary. Is this what we are doing? VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Unexplored Market

Private and public institutions are now being studied as a possible outlet for growing supplies of soybeans. Despite prospects of a record domestic and export demand for soybeans, the United States Department of Agriculture foresees a substantial increase in the national year-end stocks. The report on April 1 stocks in all storage positions shows a 1957 rise of nearly 23 percent over the same time in 1956, the previous high. Another indicator of continued year-end gains is the further expansion of soybean acreage in 1957, 3.5 percent over 1956.

The high-protein value and low cost of soybeans make them unusually appropriate for institutional feeding. The addition of three pounds of soy flour to every 100 pounds of meat and cereal products could provide a valuable protein supplement. In order to measure the market potential, the Agricultural Marketing Service studied 16 public and private institutions which recorded nutrient content as well as the cost of all foods during a survey period. Only three institutions had sublevel protein allowances. In order to supply four ounces of protein in the diet, the 16 institutions spent from 53 cents to $1.09 for meat, poultry, and fish products and 14 to 60 cents for cereal products. Soy flour, at a cost of 5 to 10 cents, can furnish an equal protein content. Its use could, therefore, result in a substantial saving.

The New Look

Your establishment can wear that "new look" from floor to roof with the aid of the following products. Peel 'N Stick, a vinyl or rubber floor tile, has been introduced by Robbins Floor Products, Inc., of Tuscumbia, Alabama. This resilient flooring can be applied over smooth surfaces such as linoleum by peeling off the protective layer of polyethylene-treated paper and placing the adhesive-coated tile in place. As neither rolling nor drying is necessary, furniture can be replaced immediately.

Walls can be refurbished with a new wood-fiber product developed by the Minnesota and Ontario Paper Company, 500 Investors Building, Minneapolis 2. According to the manufacturer, Insulite Primed Siding looks, feels, and works like wood, yet does not have surface or structural grain, knots, or slivers and will not split from nailing. Made from native aspen, this material is useful for commercial and residential building purposes and serves as either horizontal or vertical siding.

The modern look is gained when Ranchline shingles top off a structure. Designed to accentuate the long low lines of the ranch-type structure, these asphalt strip shingles are 50 percent longer than standard sizes, with a shadow band emphasizing the narrow horizontal effect. Further information is available from Barrett Division, Allied Chemical & Dye Corporation, 40 Rector Street, New York 6.

Market Analysis Aid

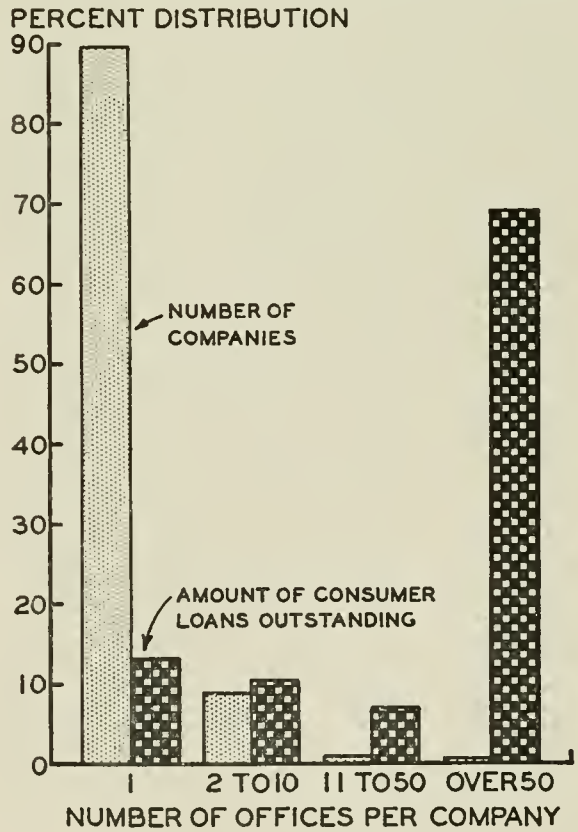
A new addition to the list of marketing aids for business firms, large and small, was recently announced by Sinclair Weeks, Secretary of Commerce. *Market Analysis Tools — County Business Patterns* is a 40-page publication describing practical methods for applying data from *County Business Patterns*. Mr. Weeks stated that this publication is the first issued by the Department of Commerce which explains in detail how to measure sales potentials by county, state, and region for consumer and industrial goods through the use of the statistics in *County Business Patterns*. The publication is available for 20 cents from the Government Printing Office, Washington 25, D. C.

Sales Finance Companies

All sales and personal finance companies were surveyed by the Board of Governors of the Federal Reserve System in mid-1955. The sales finance group included those companies having one-half or more of their consumer receivables in loans for automobiles, other consumer goods, or repairs and modernization. Companies with one-half or more of their consumer receivables in personal loans were classified as personal finance. Although the sales group accounted for about 30 percent of the 8,000 companies in the combined groups, its $7.3 billion in outstanding consumer loans represented 70 percent of the combined outstanding loans.

The sales group was composed mainly of single office companies (see chart). However, the 10 largest sales companies held 70 percent of the consumer receivables for the entire group. The total consumer loans of these 10, much larger than the top 10 personal finance companies, averaged $520 million in mid-1955.

SALES FINANCE COMPANIES, MID-1955



Source: *Federal Reserve Bulletin*, April, 1957.

EFFECTS OF TIGHT MONEY ON HOME BUILDING

ELMER P. LOTSHAW
Associate Professor of Management, Washington University

The past year has witnessed a 16 percent decline in private nonfarm residential housing starts. This decline in housing starts, which began in January, 1955, has been ascribed, in part at least, to the "tight" money situation.

The purpose of this presentation is to inquire as to the manner and extent to which a relative tightening of monetary conditions affects private nonfarm residential construction. In particular, the question is raised as to the manner in which conditions in the money and capital markets are reflected in the mortgage market, and how changes in these markets in turn affect residential construction.

Shifting Demand Vs. Financial Stringency

While emphasizing that monetary considerations have an important influence on house building, it is not implied either that "real" factors which produce shifts in the demand for housing have been of no consequence or that increases in costs have had no restrictive effects.

Some argue that, although monetary conditions have had some influence, the decline in home building has been largely due to a downward shift in demand produced by real factors. The real factors include such things as the quantity, quality, and location of existing homes; population and household growth; geographic shifts in population, real income, and consumer preferences regarding housing versus other goods. It is difficult to assess the effects of recent changes in these factors. Most have not changed greatly, but their contributions may be somewhat lower than at the peak.

Increases in the price of houses may also have reduced the number built. There is no necessary conflict between those emphasizing monetary considerations and those stressing the influence of price increases, because both factors operate to restrict the quantity purchased in the same manner. If, however, it is claimed that the decline was largely the consequence of a downward shift in the demand schedule produced by real factors, then a substantial difference in explanation exists.

For the purpose at hand, it is not necessary to argue that real factors have been of no consequence. Rather, it is only necessary to show that demand for new homes is such that the quantity purchased is sensitive to changes in credit conditions in the mortgage market. Credit conditions in the mortgage market have changed substantially in the past three years. In 1954 and early 1955 there was an abundance of little-or-no-down-payment loans with 25-30 year maturities, whereas 1956 witnessed the virtual disappearance of such funds. It will be argued that this change in credit conditions alone explains a substantial portion of the decline in home building.

The factors which are most important in explaining the extent to which residential construction is sensitive to a relative tightening in the money and, more important, the capital markets are (1) the overwhelming importance of institutional lenders and (2) the extent of Federal government intervention in the field through the FHA and GI programs, the activities of the Federal Home Loan Bank System (FHLBS) and the Federal National Mortgage Association (FNMA).

Importance of Institutional Lenders

Institutional lenders, which have long been important as suppliers of mortgage money, have substantially increased their participation in the mortgage market since the end of World War II. Grebler, in his book *Capital Formation in Residential Real Estate*, indicates that the proportion of nonfarm residential mortgages held by institutional lenders increased from 67 percent in 1945 to 84 percent in 1952. This has worked toward creating a national mortgage market and tends to make the availability of mortgage money more sensitive to conditions in the capital markets.

As credit conditions tighten in the capital market, yields on different types of investments change relative to one another. This change in relative yields influences the institutional lenders in two ways. First, changes in relative yields alter the attractiveness of alternative investments available to certain financial institutions. Examples of such institutions are life insurance companies, mutual savings banks, and commercial banks which make substantial long-term investments other than mortgage loans. Second, changes in relative yields affect the amount of funds placed with institutional mortgage lenders. Commercial banks, savings and loan associations, and mutual savings banks are influenced in this fashion.

Changes in credit conditions in the capital market are reflected through changes in interest rates on new government and high-grade corporate securities and corresponding changes in yields on existing securities. In the case of new mortgages, however, changes in credit conditions are partially reflected through a change in the rate of interest and partly through changes in loan-to-value ratios, maturities, appraisal values, and in the ratio of loan approvals to rejections.

Over a long period of time interest rates on mortgage loans tend to parallel bond yields. In the short run, however, mortgage loan interest rates appear stickier than bond yields. This causes the spread between the higher mortgage loan rates and the lower bond yields to increase when bond yields are declining and to decrease when bond yields are rising. These spreads are important determinants of the extent to which certain institutional lenders, particularly life insurance companies and mutual savings banks, invest in mortgage loans as opposed to other investments. Recently, these institutions have diverted funds away from mortgages.

Experience of the past five years indicates that a general rule may be established regarding the spread required by institutional investors, particularly insurance companies and mutual savings banks. At present the cost of servicing loans, home office expenses, and risk considerations make necessary a net differential between mortgage loan and long-term government bond yields of 1¼ to 1½ percent. Government restrictions on the rates on insured loans mean that the margin may readily be reduced below this minimum. This, of course, is not to be interpreted rigidly; the required yield will vary somewhat over time. Also, mortgage lending by particular institutions will be influenced by policies regarding the balance desired in their investment portfolios.

Effect of Interest Rate Changes

As is true of other large purchases by individuals, the immediate cash payment and monthly installments required of the buyer are of much greater importance in influencing purchases of old and new homes in the short run than are the price and the rate of interest per se. Indeed, changes in price and the mortgage loan rates are important mainly through their influence on the initial cash outlay and monthly installments.

Interest rate changes have another effect through influencing the price of new, as compared with existing, homes. If the prospective real return on an existing asset is unchanged, a higher money rate of interest will tend to reduce its market value. The man who must sell one to purchase another is adversely affected. Owners of old homes can feel "locked in" in the same manner as holders of long-term bonds when interest rates rise.

With persons who are buying a house for the first time this need not be the case. However, a restrictive effect may occur when there are legal restrictions on the contractual rate of interest which can be charged the purchaser, as in the case of FHA and GI loans. Once the mortgage lending rate rises above legal contractual rates on GI and FHA loans, one or a combination of the following things will happen if homes are to be sold: (1) the seller absorbs a discount; (2) the buyer pays a cash premium which increases his down payment; or (3) the appraised value is increased which, if the loan-to-value ratio is not raised, requires the buyer to make a higher down payment and to pay larger monthly installments. All of these require that the buyer and/or the seller pay the lender an amount of cash sufficient to raise the effective yield on the investment to the present market rate of interest. Since there is a limited ability to manipulate appraised values in the short run, increases in interest rates above the legal maximums on GI and FHA loans will have a pronounced effect on residential construction financed by these types of loans because of:

(1) Limited willingness of the builder to absorb discounts which cut into his profit margins;

(2) Limited cash in the hands of the buyer, which restricts the premium he can pay and precludes him from considering a conventional loan, at least on a comparable home.

If the government does not step in, the consequence can be a substantial decline in residential construction.

The Role of Government Agencies

The policies of the FNMA and, to a lesser extent, the FHLBS help to determine the extent to which changes in the capital market affect the supply side of the mortgage market. The FNMA becomes important on the supply side of the mortgage market when it acts as a primary lender in addition to serving as a secondary market facility. An example of this occurred between July, 1948, and March, 1950, when the FNMA issued advance commitments to purchase FHA and GI mortgages. These commitments assured that a par market would exist for the permanent mortgages on completed homes and hence facilitated construction. The FHLBS, through making loans to member savings and loan associations, can act to channel more funds into the mortgage market than would otherwise be the case under given conditions in the capital markets. Increased lending by the Federal Home Loan Banks to member savings and loan associations need not, of course, guarantee the availability of mortgage money on a low down payment, 25-30 year maturity basis.

It should also be noted that isolating mortgage lending from changes in general credit conditions will not guarantee that a certain proportion of the nation's resources will be devoted to home construction. If the economy is fully employed, liberal credit conditions in the mortgage market can be offset by a rise in the price of homes.

Even with government intervention it is to be expected that changes in home building will lag changes in credit conditions in the capital markets. It is the general practice of builders to secure commitments from the mortgage lenders in advance of embarking on a home-building project. However, a lag may also exist when builders do not operate in this fashion but instead rely on being able to secure permanent mortgage financing after they have financially committed themselves to a construction project. Once a partial investment in the project has been made the builder may have little alternative but to go ahead even though unforeseen changes in credit conditions reduce prospective profits.

It is probable that changes in residential construction will lag when conditions in the capital markets are easing as well as when they are tightening. The advent of the large-scale speculative builder can be a potent force affecting the possibility of recovery through easing mortgage market conditions. If, as a consequence of reduced profits or losses incurred during a period of stringency, these builders develop pessimistic expectations regarding the future, easier mortgage market conditions may fail to stimulate residential construction for a while.

Government Programs Most Affected

As a consequence of the sustained demand for capital funds and the reversal of the Federal Reserve policy of active ease in late 1954, bond yields increased gradually in 1955 and rose sharply in 1956. Private nonfarm residential housing starts reached a peak of 1,456,000 at seasonally adjusted annual rates in December, 1954, and declined to 880,000 by March, 1957. Although the decline started in January, 1955, the seasonally adjusted rates during the first nine months of 1955 were higher than during the same period in 1954. Also, it was during the latter months of 1955 that FHA and GI starts, expressed as a percentage of total starts, declined below their corresponding 1954 levels.

The decline in total starts in 1956 from the 1955 level was exclusively a decline in starts financed by FHA and GI loans. FHA and GI financed starts fell from 51 percent of the total in 1955 to 42 percent in 1956. Starts financed by conventional loans were about the same in 1956 as they were in 1955.

Although a downward shift in demand may have been partly responsible for a decline in home building, it seems clear that the tightening of credit was important. Since credit is no longer being tightened, this would suggest that the decline need not continue at the same rate. A general recession in business would, of course, affect housing adversely, but residential construction will not necessarily be an important factor making for such a recession.

LOCAL ILLINOIS DEVELOPMENTS

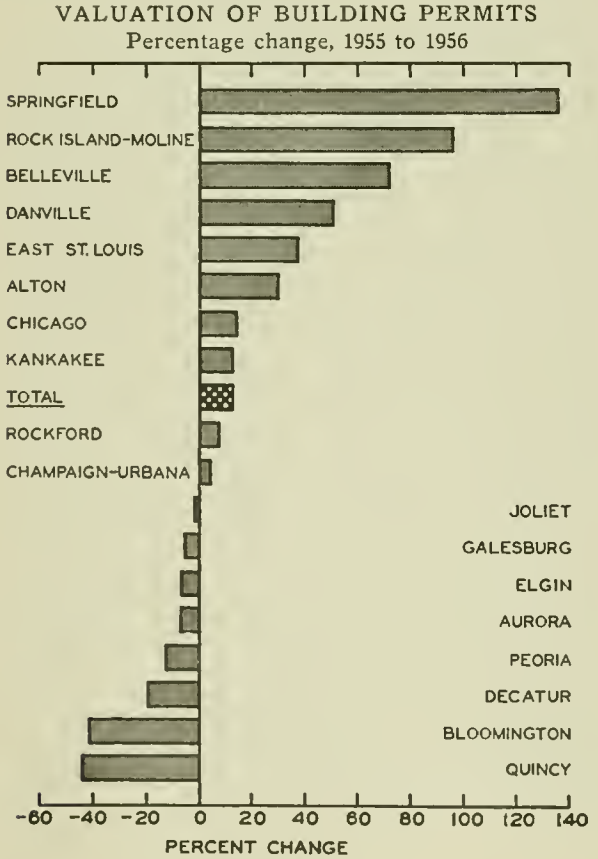
Rises were recorded in the leading indicators of Illinois business activity during March with the exception of slight dips in coal production and manufacturing employment. Petroleum production increased almost one-tenth; advances of more than one-fifth were recorded for construction contract awards, bank debits, and life insurance sales.

Year-to-year comparisons indicated an increase of 28 percent in life insurance sales and 18 percent in business loans by large Chicago banks. Other indicators showed relatively small changes.

Building Continues to Gain

The pace of Illinois building continued to grow during 1956 as the valuation of permits issued rose 13 percent over 1955. More than one-half of the selected cities recorded gains. The actual amount varied considerably by area, as is shown on the accompanying chart. In northern Illinois the growth was about average for the State with two exceptions. Suburban Chicago areas declined slightly, whereas building in the Rock Island-Moline area increased nearly 100 percent. The most extreme changes were recorded in central Illinois with Springfield surging far ahead and Quincy and Bloomington lagging behind. In the south, which had shown little if any growth during 1955, building rose much above average in 1956.

Occasional large projects often accounted for most of the substantial changes. In Springfield, for example, an apartment building, a new nurses home, and an addition to the Memorial Hospital of Springfield accounted for $4.8 million, nearly half of the 1956 valuations. In contrast, the completion of a large project in Quincy was an important factor in the 44 percent decline shown on the chart.



Sources: U. S. Department of Labor and local sources.

Corporate Farming

Large farm incomes and large families can make incorporation advantageous, reports Professor Norman Krausz of the University of Illinois. Incorporation might also be considered under such circumstances as father-son arrangements, farm partnerships, or individual farming when net income exceeds $15,000 ($10,000 if the farmer is unmarried) or when capital investment is high. The major advantages are limited liability; simple transfer of ownership; continuity of operation in the event of a change in ownership; possible increased efficiency through the necessity of accurate records, reports, and prior planning; and possible tax reduction.

The disadvantages outlined are the initial cost and franchise taxes — about $225 to incorporate a $100,000 business with subsequent annual taxes of $50; the formal organization requirements; and possible increased income taxes. Professor Krausz recommends that the advice of an attorney be obtained before incorporating.

Test Road

Composed of five test loops, the $20 million Illinois test highway near Ottawa will be traveled 15 hours a day from October, 1957, until the summer of 1960. The project, supervised by the Highway Research Board of the National Academy of Sciences, is designed to test various types of highway construction. Four of the five loops, to be used to study the effects of heavy vehicular traffic, will have six vehicles in each of the two lanes. The axle loads will range from 10,000 to 50,000 pounds with many of the trucks built especially for the project. The newly added fifth loop, designed primarily to gain information to aid in the planning of the interstate highway program, will have four light vehicles comparable to automobiles and pickup trucks in each lane.

The loops, each a mile and a half in length, will be separated by standard parkways and connected at each end by turn-arounds for continuous movement. The types of highway construction to be tested include 32 rigid and 40 flexible designs in each of the two parallel pavements, and four two-lane simple span test bridges of steel-reinforced concrete and prestressed reinforced concrete.

A New Coal Market

Illinois coal has been proven suitable for the manufacture of metallurgical coke in experiments conducted by the State Geological Survey since 1953. By proper blending, the combination of eastern low-volatile coal and Illinois high-volatile coal has been shown to be successful with a wide range of coal proportions. One blend contains 75 percent Illinois coal and 25 percent eastern. Only the Illinois coals having a low sulphur and ash content, such as those mined in Jefferson, Franklin, Williamson, and Saline counties, can be utilized.

The successful use of Illinois coal in commercial coke plants could result in a considerable increase in its consumption within the next few years. Another factor tending to encourage this would be the cost of transporting eastern coal to the State. Further savings in freight might be realized with the development of river barge transportation facilities to the Chicago steel area.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$40,158[a]	1,158,870[a]	$550,055[a]		$16,936[a]	$13,965[a]
Percentage change from Feb., 1957	−2.3	−2.0	−20.1	+17	+20.7	+3.5
Percentage change from Mar., 1956	−17.3	+5.3	+3.9	−5	+6.4	
NORTHERN ILLINOIS						
Chicago	$31,547	891,241	$404,705		$15,577	$12,166
Percentage change from Feb., 1957	−5.2	−1.0	−18.6	+17	+21.4	+4.3
Percentage change from Mar., 1956	−13.7	+5.6	+2.4	−5	+6.7	
Aurora	$ 689	n.a.	$ 8,285		$ 65	$ 146
Percentage change from Feb., 1957	−44.9		−21.9	+24	+15.8	+12.6
Percentage change from Mar., 1956	+16.0		+9.5	−8	+8.4	
Elgin	$ 488	n.a.	$ 5,612		$ 40	$ 89
Percentage change from Feb., 1957	+208.9		−31.4	+38	+8.0	−6.4
Percentage change from Mar., 1956	−18.0		+10.8	−1	+4.6	
Joliet	$ 458	n.a.	$11,671		$ 81	$ 78
Percentage change from Feb., 1957	−67.7		−25.6	+29	+13.7	−9.4
Percentage change from Mar., 1956	−28.4		+6.0	−8	+1.0	
Kankakee	$ 293	n.a.	$ 4,578		n.a.	$ 47
Percentage change from Feb., 1957	+113.9		−32.5	n.a.		+8.9
Percentage change from Mar., 1956	−5.5		+4.4			
Rock Island-Moline	$1,048	22,350	$ 8,903		$ 101[b]	$ 157
Percentage change from Feb., 1957	+140.4	−5.5	−25.7	n.a.	+17.0	−2.7
Percentage change from Mar., 1956	−60.9	−2.8	−2.5		+12.4	
Rockford	$1,007	48,055	$18,657		$ 197	$ 229
Percentage change from Feb., 1957	+35.7	−4.5	−16.6	+20	+18.6	+6.9
Percentage change from Mar., 1956	−31.7	+22.4	+8.0	+1	+4.2	
CENTRAL ILLINOIS						
Bloomington	$ 897	8,057	$ 4,785		$ 64	$ 90
Percentage change from Feb., 1957	+993.9	−5.1	−32.8	n.a.	+17.0	−7.7
Percentage change from Mar., 1956	+69.2	−3.4	−0.5		+1.9	
Champaign-Urbana	$ 620	10,890	$ 6,884		$ 67	$ 104
Percentage change from Feb., 1957	+193.8	−1.0	−27.8	n.a.	+9.3	+35.2
Percentage change from Mar., 1956	+1.6	+4.1	+5.4		+1.5	
Danville	$ 126	10,939	$ 5,379		$ 54	$ 55
Percentage change from Feb., 1957	+18.9	−8.1	−35.7	+15	+16.7	+1.8
Percentage change from Mar., 1956	−10.0	−1.1	+0.5	−13	−3.0	
Decatur	$1,066	31,599	$10,941		$ 124	$ 99
Percentage change from Feb., 1957	+20.0	−9.6	−27.4	+27[c]	+16.3	−11.0
Percentage change from Mar., 1956	+24.8	−0.7	+4.8	−9[c]	−3.0	
Galesburg	n.a.	8,542	$ 4,047		n.a.	$ 34
Percentage change from Feb., 1957		−3.8	−25.5	n.a.		−1.9
Percentage change from Mar., 1956		+5.5	+6.8			
Peoria	$ 447	52,296[c]	$16,352		$ 224	$ 240
Percentage change from Feb., 1957	+0.7	−5.4	−28.1	+16[c]	+7.5	−8.3
Percentage change from Mar., 1956	−69.6	+4.6	+1.8	−14[c]	−1.3	
Quincy	$ 210	9,222	$ 4,397		$ 40	$ 63
Percentage change from Feb., 1957	−86.6	−11.5	−32.3	+21	+10.1	+4.5
Percentage change from Mar., 1956	−61.0	+7.7	−2.1	−22	+3.8	
Springfield	$ 405	32,338[c]	$12,390		$ 119	$ 236
Percentage change from Feb., 1957	+114.3	−2.0	−28.9	+21[c]	+9.5	−14.4
Percentage change from Mar., 1956	−50.8	+1.6	+4.8	−15[c]	+5.8	
SOUTHERN ILLINOIS						
East St. Louis	$ 310	11,417	$ 8,654		$ 143	$ 54
Percentage change from Feb., 1957	+292.4	−8.8	−22.9	n.a.	+7.7	−4.4
Percentage change from Mar., 1956	−33.9	−13.7	+7.0		+9.7	
Alton	$ 459	14,352	$ 4,462		$ 39	$ 28
Percentage change from Feb., 1957	+665.0	+3.8	−25.9	n.a.	+19.0	−11.9
Percentage change from Mar., 1956	+321.1	+6.8	−2.0		−10.3	
Belleville	$ 88	7,571	$ 4,274		n.a.	$ 50
Percentage change from Feb., 1957	+282.6	−4.0	−29.3	n.a.		+20.7
Percentage change from Mar., 1956	−38.0	+8.7	+8.1			

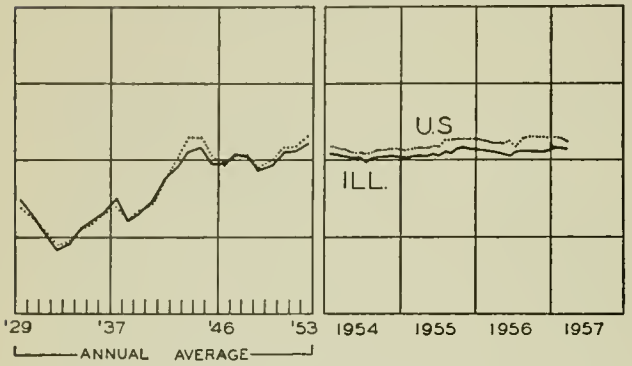
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for January, 1957. Comparisons relate to December, 1956, and January, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending March 8, 1957.

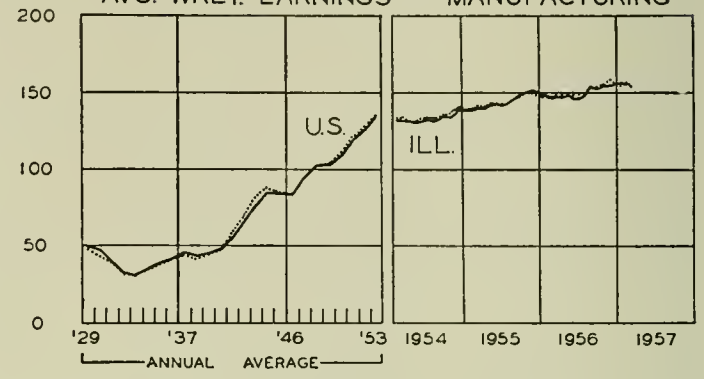
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

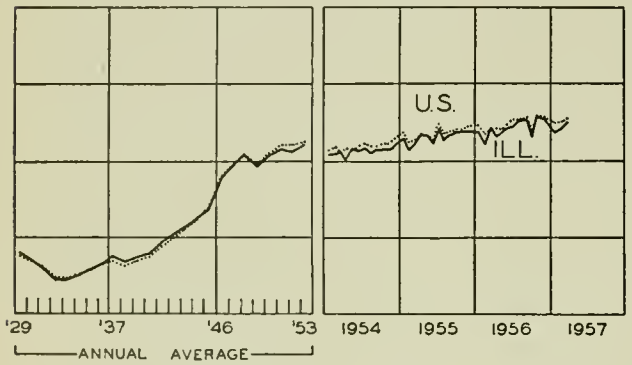
EMPLOYMENT–MANUFACTURING



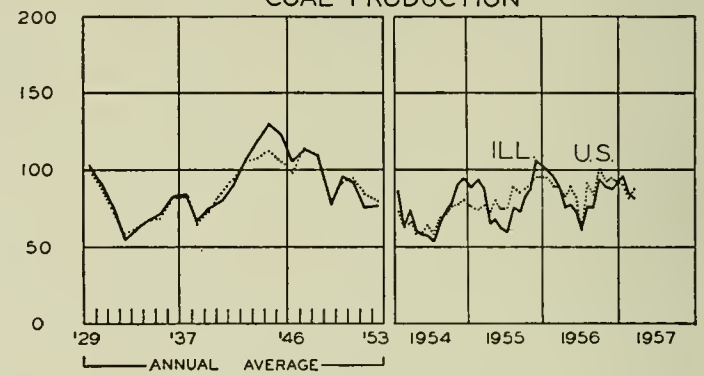
AVG. WKLY. EARNINGS — MANUFACTURING



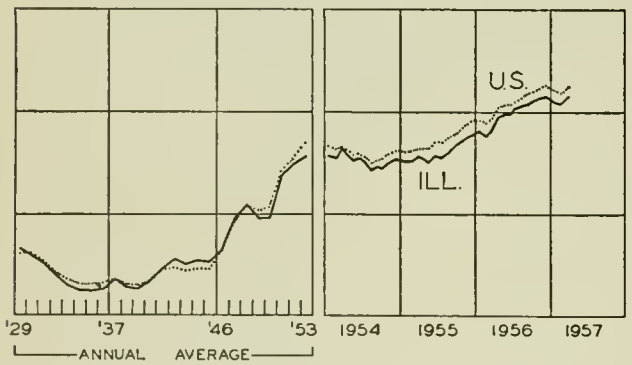
DEPARTMENT STORE SALES



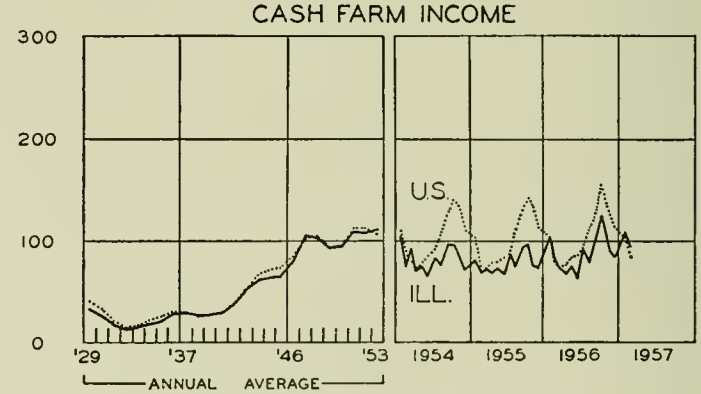
COAL PRODUCTION



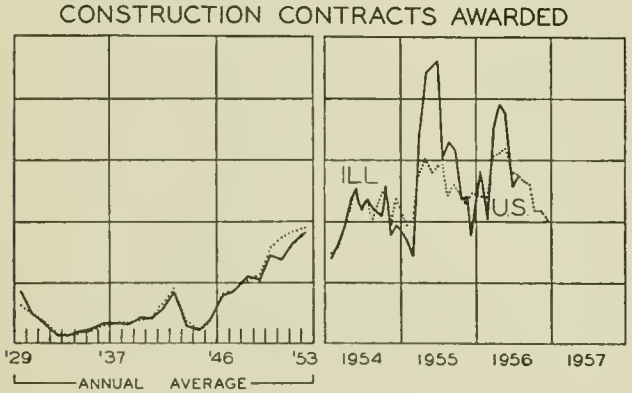
BUSINESS LOANS



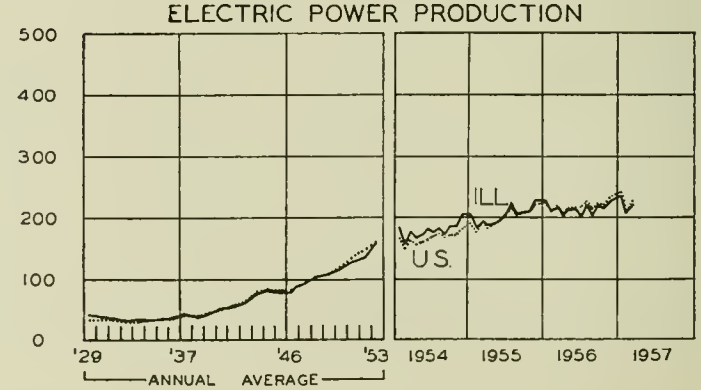
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MAY

Business activity showed little change in May. Further increases in consumer prices, reflecting earlier advances in wholesale prices, probably carried personal income to higher levels, but physical volume of goods and services produced may have declined slightly again.

Steel production in May ran behind April, 1957, as well as May last year. Electric power output and automobile production declined, although both were above their levels for May, 1956. Petroleum output, one of the few production series that have stayed above 1956 levels, was well below the March peak. Carloadings increased seasonally over April, but were further behind year-ago figures than were earlier months. Department store sales, seasonally adjusted, were up slightly from April and from May last year.

Automobile Sales Disappointing

The auto industry has given up hope that 1957 sales will total 6.5 million cars or more. Revised predictions anticipate no more than the 5.8 million cars sold in 1956 and one important executive would make even this estimate dependent upon a return to the market of 1955 credit buyers who have paid off their installment debt. Sales in April, according to unofficial estimates, ran nearly 4 percent behind April last year and those of early May were also lagging.

Meantime, dealers' inventories are estimated to have reached about 800,000 cars by the end of April, an increase of some 550,000 in little more than six months and uncomfortably close to the peak of some 900,000 in early 1956. Output of 531,000 cars in May was 3 percent below April, but nearly 13 percent above May, 1956. It raised the total for the first five months of this year 4 percent above the same period last year.

Construction Outlays Up, Contracts Off

A seasonal advance in outlays for new construction of 11 percent over April carried the total for May to $4 billion, a new high for the month. On the other hand, construction contracts awarded, which tend to lead outlays, declined 10 percent between March and April after a 42 percent increase from February to March.

The gain in outlays brought the total for the first five months of this year 3 percent above the corresponding period last year. All of the increase over the year was due to increased public construction. The April drop in awards left the contracts total for the first four months of this year at about the same level as January-April, 1956.

Expenditures for nearly all types of private and public construction rose in May. A 22 percent decline in nonresidential construction contracts was the principal factor in the reduction of awards in April. Contracts for factories were off 40 percent from April last year.

Outlays for new private residential buildings, up 8 percent from April, were still well below May last year. Home-building contracts in April were 11 percent above March, although they were off 8 percent from April, 1956. Similarly, nonfarm housing starts in April were 11 percent above March, but 17 percent below April last year and lower than any April since 1949.

Manufacturers' Sales Fall Again

Shipments by manufacturers fell more than seasonally in April, all of the decline occurring in the durable-goods industries and primarily among transportation equipment producers. After seasonal adjustment the drop was estimated at $300 million. The seasonally adjusted book value of manufacturers' inventories rose about $200 million, again with all of the change in the durable-goods industries.

New orders placed with manufacturers in April were about the same as in April last year and were little changed from March of this year after seasonal adjustment. Unfilled orders were reduced from March to April by $1.3 billion to $60 billion.

Consumer Debt Rises

Total consumer debt advanced by $512 million in April to a total of $41 billion, $2.8 billion above the year-ago level. Installment debt accounted for $259 million of the April increase and $31.5 billion of the total outstanding at the end of the month. The addition to total consumer credit was somewhat greater than in April last year, but the April gain in installment credit was less than that of 1956 and only half that of 1955.

Automobile paper, which accounts for about half of all installment debt, increased $158 million in April, the third consecutive monthly advance, but the expansion was below that of April, 1956. Other consumer goods paper declined $27 million and personal loans gained $122 million in April. An increase of $187 million in charge accounts associated with the Easter expansion in retail sales was the principal factor in the growth of noninstallment debt.

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ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

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Housing Boom— Then and Now

"Despite the dips and rallies of home-building statistics, I am confident that the housing market is basically sound, and is going to continue strong for many years to come." Albert M. Cole, United States Housing Administrator, April 27, 1957.

The Optimistic View

The following quotations from various authorities seemingly lend support to Mr. Cole's position:

"Many business observers have attributed the decline in building contracts that took place in the first quarter of this year entirely to credit stringency. . . ."

"New elements have crystallized in the building industry. . . . Actual building construction has continued in such volume for five years now that it seems absolutely necessary to discard the 'boom period' and accept the new normal. . . . The coming years of prosperity will undoubtedly see another great uplift in the standards of housing. . . . There is under way the most extensive modernizing and remodeling program ever known in the history of the country. . . ."

"It is probable that demand for residential construction at the present time is not markedly below normal . . . and will improve gradually during the remainder of the year. . . . A real depression in the building industry is not in prospect. The recent decline in construction is more in the nature of a readjustment hastened and aggravated by unsettled credit conditions. . . ."

The hitch is that these supplementary quotations by experts on building conditions are old stuff. All of them first appeared in print in the early months of 1929. Their similarity to what is being said today is remarkable.

Pattern of Decline

In early 1929, residential construction was down substantially from the peak of 1925. Nevertheless, the total value of construction activity was at a peak. Nonresidential contract awards had made an all-time high in 1928, more than offsetting the decline in residential awards. Prominent in sustaining the total was the increase in public works and utilities construction. There were frequent references in 1929 to the tremendous amount of municipal and state bond issues for schools, hospitals, and other public projects.

After a burst of home building in early 1928, the decline in this type of construction accelerated. It seemed appropriate to hold credit conditions responsible, because interest rates began to move up sharply at the same time. The FRB put the rediscount rate up to 6 percent in a series of steps beginning in February, 1928, and there was an outcry against the ruinous effects of tight money.

Following the stock market collapse late in 1929, interest rates were lowered promptly. They reached new lows by mid-1930, but residential construction continued to slide off with only a moderate slackening of pace.

It is not intended to argue that financial stringency is without effect on home building. This is the one place its effects are most clearly felt, and it seems only proper to give the devil his due. However, it is equally clear that in this situation predepression credit conditions were not controlling. Money was not eased until after the decline began, and then other factors were more important than the shift in monetary policy. Falling income and rising unemployment governed the decline to the depression lows. From 1925 to 1933, housing starts declined almost 90 percent.

Basic Supply and Demand Factors

The collapse of the housing boom may be better explained in terms of the basic factors underlying construction activity. Rates of family formation began to decline in the early 1920's and were well under new construction during the boom years. The stock of nonfarm houses available was sure to exceed the number of families after a while. Taking the number of married couples as an index of all families, it appears that the number of houses took the lead in 1925 or 1926. Thereafter, the growing excess exerted a continuous downward pressure on new construction even though income remained high. When unemployment began to increase, the rate of family formation was further depressed and new construction fell more rapidly.

A relationship that explains new housing starts in terms of married couples, the stock of houses available, and unemployment accounts fairly well for rates of new construction over the period from 1922 to date, excluding the period of World War II and the immediate postwar years. Admittedly, it is difficult to standardize such a relationship on the basis of a single cycle, or at most a cycle and a half. Also, the recent postwar decade has been subject to greater disturbances. Nevertheless, it may serve to indicate the existing imbalance.

The basic factors in this relationship are again adverse. Construction has worked off the backlog accumulated during the war, and the supply of nonfarm housing is moving toward an excess. Family formation has slowed and is well below the rate of new construction. Easier terms might make some contribution now, but should unemployment begin to rise, the decline in home building will probably continue even with easing of credit. There is not much more that can be done in lowering down payments and extending periods of amortization in order to bring home purchases within the financial capacity of additional families.

In 1928, actual home building was running somewhat in excess of the volume called for by the relationship; in 1929, it swung all the way over to the other side. Since late 1954, the volume has again been in excess of that called for. Even with continuing prosperity, some further decline in new construction is likely. If for any reason prosperity cannot be maintained, the decline in building still has a long way to go.

VLB

MOTELS—MODERN HIGHWAY INNS

In America the business of providing roadside lodgings for travelers goes back to colonial days. Later, the railroad changed the character of hostelry by replacing the stagecoach with faster, more comfortable travel. Inns, tending to locate along with other businesses at railroad stations, became known as hotels.

When the automobile was introduced, adventurers with their horseless carriages wandered far beyond the city limits. After 1913, the roadside inns reappeared to accommodate these courageous travelers, mostly in more thinly settled areas of the West. By 1939 there were 13,000 of these lodgings scattered throughout the country.

The Industry Today

Transition of the motel from cramped roadside cabins to first-class accommodations did not occur in most parts of the country until after World War II. From occasional courts, motels suddenly blossomed into a significant industry. A number of factors were responsible. Among these were the widespread ownership of automobiles, increased holiday touring, greater prevalence of the paid holiday, and development of first-class highways. Moreover, motels became more comfortable and luxurious and were less affected by the problems of hotels, such as parking, high operational costs, and labor problems. Whereas motels have multiplied rapidly in recent years, hotel construction has tapered off. Although hotels require a smaller percentage of occupancy than motels to break even, the former are faced with considerably higher fixed costs and need much more total revenue. For that reason only the first-class hotels in large cities are surviving the motel assault. Many hotels in small cities have become second-rate through decreased business and are giving way to improved facilities of nearby motels.

The motel industry has doubled since 1948, quadrupled since 1939. It provides more than a million rooms for 1.2 million guests each night. The nation's 56,000 motels took in $1.3 billion in 1956.

Operating expenses have taken a smaller share of motel revenue since 1946, the first year of the postwar motel boom. These expenses dwindled from 56 percent of revenue in 1946 to only 42 percent in 1955. But meanwhile the necessity for improvement forced the operator to invest more. There were sharp increases in expenses such as taxes, insurance, depreciation, and interest. The average motel owner in 1945 received a profit of 35 cents from each dollar of rental revenue, but by 1955 his net profit shrank to 24 cents.

The Industry in Illinois

Motels in Illinois are patronized primarily by cross-country tourists and transient businessmen. More than 60 percent of the State's estimated motel income of $22 million in 1956 was derived from overnight commercial travelers and it is estimated that more than 50 percent of the vacationers who stayed overnight while crossing the State were housed in motels.

Although its motel growth has not been so rapid as that of some states, Illinois had a 295 percent increase in number of motels between 1939 and 1954. Meanwhile, the number of hotels decreased 12 percent. Last year, Illinois had an estimated 1,000 motels and tourist courts with more than 12,000 units. Three-fourths of them were less than 10 years old and nearly half were less than five years old.

More than 76 percent of the State's motels are 15 units or less in size and 56 percent are 10 units or less. The two largest motels — of 240 and 150 units — are located in Rockton and Chicago, respectively. Only 11 percent of the State's motels are located within city limits. Most small motels are operated by the owner and his wife. Motels of 16 to 25 units may require three to five employees besides the owners. Larger motels may employ a maid for every 10 rooms plus a manager and an assistant manager. It is estimated that in Illinois only 1,500 persons are employed in the industry.

Chicago, the nation's convention city, has long been a hotel stronghold. Motels were banned until 1953. At that time only one existed within the city limits — and it was nine miles from downtown. Since then, construction in the city has progressed at a phenomenal rate. More than 20 motels are in operation and 15 are under construction. Chicago proper will have more than 2,000 motel rooms available by early 1958, according to an estimate of the American Motel Association of Illinois. Only in Chicago, where land is at a premium, has there been any noticeable trend toward multistory motels.

Problems and Prospects

The motel industry, despite its fantastic growth and popularity, is not without problems. Because of the extreme competitiveness of the industry, there is constant pressure to seek architectural and design improvements as well as new methods of service to attract guests.

The saturation point in motel construction may be near, especially along existing routes where 5,000 new motels were built in 1955-56. Small motels operated by husband-wife teams probably will be squeezed most by new types of competition. Large outlays, rising costs, high mortgages, and growing competition from corporate interests also will pose problems, especially in the lucrative areas.

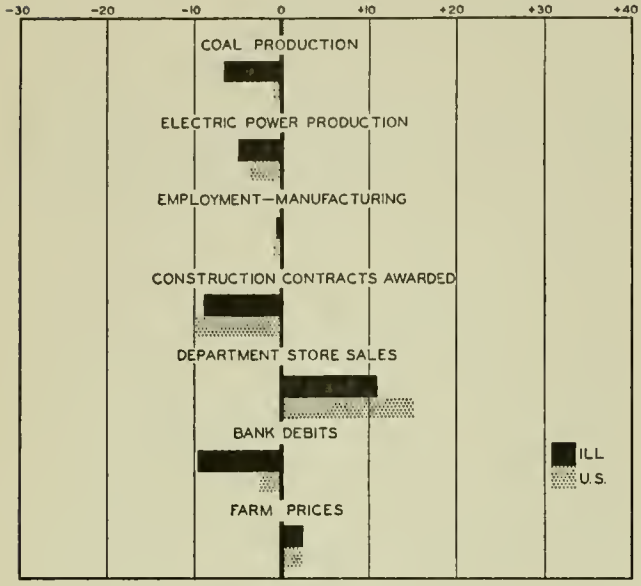
Also perplexing is the new 41,000-mile Federal highway program, 75 percent of which will bypass present-day motels. Although new motels will spring up along the new highways, many bypassed motels may not be able to survive. Their competitive position will depend largely upon how they eventually find themselves located in relation to the new Federal system.

Motels, like hotels, were born out of a shift to different means of transportation. With the increase in automobiles, the future points to continuing popularity of motels, at least until new developments in land and air transportation create demands for new forms of accommodations for travelers.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1957, to April, 1957



ILLINOIS BUSINESS INDEXES

Item	April 1957 (1947-49 =100)	Percentage change from Mar. 1957	Percentage change from Apr. 1956
Electric power[1]	209.6	−4.7	+ 3.9
Coal production[2]	75.9	−6.6	− 3.3
Employment — manufacturing[3]	107.0	−0.6	− 1.2
Weekly earnings—manufacturing[3]	155.3[a]	−0.1	+ 4.3
Dept. store sales in Chicago[4]	117.0[b]	−4.9	+ 1.7
Consumer prices in Chicago[5]	122.0	+0.3	+ 3.3
Construction contracts awarded[6]	337.9	−8.7	n.a.
Bank debits[7]	175.6	−9.4	+ 7.2
Farm prices[8]	81.0	+2.5	+ 2.5
Life insurance sales (ordinary)[9]	288.5	−4.0	+31.0
Petroleum production[10]	125.7	−4.2	+ 2.1

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] March data; comparisons relate to February, 1957, and March, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	April 1957	Percentage change from Mar. 1957	Percentage change from Apr. 1956
	Annual rate in billion $		
Personal income[1]	339.3[a]	+ 0.4	+ 5.5
Manufacturing[1]			
Sales	342.0[a]	− 1.0	+ 4.8
Inventories	52.5[a, b]	+ 0.4	+ 9.4
New construction activity[1]			
Private residential	13.1	+ 6.9	−11.7
Private nonresidential	15.3	+ 5.5	+ 7.1
Total public	13.1	+20.5	+ 9.7
Foreign trade[1]			
Merchandise exports	25.7[c]	+33.5	+35.4
Merchandise imports	13.5[c]	+12.2	+ 4.9
Excess of exports	12.2[c]	+68.8	+99.4
Consumer credit outstanding[2]			
Total credit	41.0[b]	+ 1.3	+ 7.3
Installment credit	31.5[b]	+ 0.8	+ 7.2
Business loans[2]	31.3[b]	+ 3.4	+12.6
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	145[a]	− 0.7	+ 1.4
Durable manufactures	161[a]	− 0.6	+ 1.3
Nondurable manufactures	132[a]	+ 0.8	+ 1.5
Minerals	129[a]	− 3.0	0.0
Manufacturing employment[4]			
Production workers	106	− 0.1	− 1.4
Factory worker earnings[4]			
Average hours worked	100	− 0.5	− 1.0
Average hourly earnings	154	0.0	+ 4.6
Average weekly earnings	168	+ 8.0	+12.4
Construction contracts awarded[5]	307	− 9.8	− 9.0
Department store sales[2]	122[a]	− 3.9	0.0
Consumer price index[4]	119	+ 0.3	+ 3.8
Wholesale prices[4]			
All commodities	117	+ 0.3	+ 3.2
Farm products	91	+ 2.0	+ 3.0
Foods	104	+ 0.6	+ 3.9
Other	125	− 0.1	+ 3.0
Farm prices[3]			
Received by farmers	89	+ 2.3	+ 2.3
Paid by farmers	118	0.0	+ 3.5
Parity ratio	81[d]	+ 1.3	− 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for March, 1957; comparisons relate to February, 1957, and March, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957 May 25	1957 May 18	1957 May 11	1957 May 4	1957 April 27	1956 May 26
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,625	1,607	1,614	1,595	1,667	1,657
Electric power by utilities mil. of kw-hr	11,574	11,519	11,311	11,286	11,310	10,927
Motor vehicles (Wards) number in thous	151	151	149	144	148	130
Petroleum (daily avg.) thous. bbl	7,456	7,511	7,434	7,529	7,537	7,071
Steel 1947-49 = 100	128	125	129	129	132	139
Freight carloadings thous. of cars	723	723	723	719	691	788
Department store sales 1947-49 = 100	116	120	133	133	123	117
Commodity prices, wholesale:						
All commodities 1947-49 = 100	117.1	117.2	117.2	117.1	117.3	114.4[a]
Other than farm products and foods 1947-49 = 100	125.2	125.3	125.4	125.4	125.4	121.7[a]
22 commodities 1947-49 = 100	88.3	87.6	88.2	88.2	88.7	90.4
Finance:						
Business loans mil. of dol	31,328	31,569	31,338	31,450	31,349	28,093
Failures, industrial and commercial number	309	264	267	297	263	273

Source: *Survey of Current Business, Weekly Supplements.*
[a] Monthly index for May, 1956.

Consumer Durable Goods Output Off

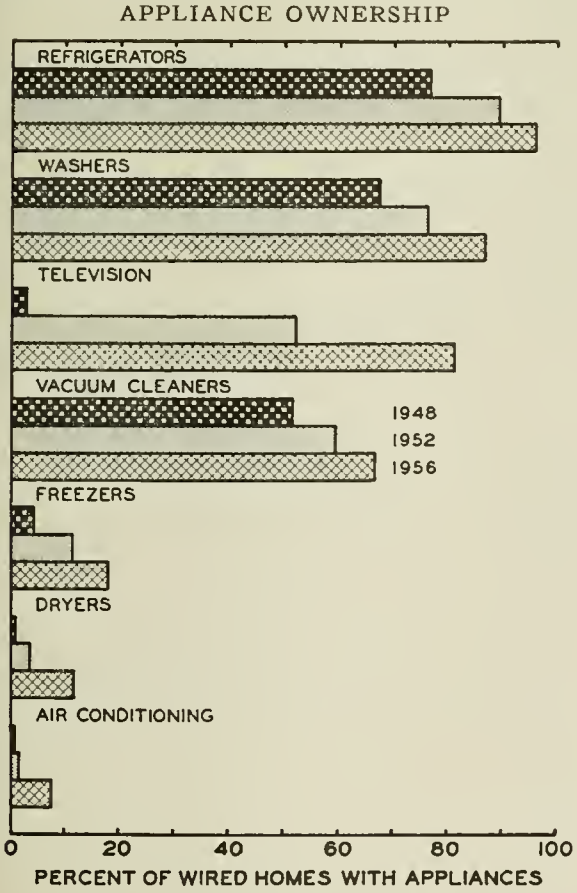
In contrast to industrial production, which tended moderately upward during 1956 and then was maintained on a high plateau in the early months of 1957, production of consumer goods has continued to exhibit downward tendencies evident since mid-1955. The Federal Reserve Board's index of major consumer durable goods, exclusive of automobiles, averaged 7 percent lower in the first three months of this year than a year ago and was down nearly 10 percent from 1955's mid-year peak. Auto production, which has been considerably more volatile than output of other durables, was also down substantially from 1955's record volume.

Manufacturers of many household durables have faced inventory difficulties in recent months. Sales of major appliances at department stores, for example, declined more than 10 percent between mid-1955 and April of this year. At the same time, stocks increased by a fifth.

Reflecting the inventory surplus, production of television sets, ranges, refrigerators, and laundry appliances was off about 10 percent in the first quarter from a year ago. The decline in output of furniture and floor coverings has been more moderate and output of miscellaneous small appliances and personal goods has continued at a rate about equal to last year.

Appliance Markets

The extent of mechanization enjoyed by American families is depicted in the chart below. Almost all wired homes in the United States had refrigerators in 1956, and ownership of washing machines, television sets, and vacuum cleaners was markedly high.



Source: Council of Economic Advisers.

Greatest relative growth in ownership during the past decade occurred in the more recently developed appliances — television sets, freezers, dryers, and air conditioners. For all lines, demand moved ahead strongly during the decade under the stimulus of high per capita incomes and growth in family formation. Home building is also an important factor in the demand for appliances. The reduction in sales and output of household durables which has occurred since mid-1955 has resulted partly from the cutback in residential building.

Liquid Saving at Record High

Individuals' saving in the United States more than doubled between 1955 and 1956, according to estimates of the Securities and Exchange Commission. Saving, including claims in the form of cash and bank deposits, savings and loan association shares, securities, insurance and pension reserves, net of the increase in individuals' debt, rose from $7.6 billion in 1955 to $14.6 billion in 1956. The 1956 total was a record high and compares with $12.9 billion in 1952, the previous peak.

The most important change in individuals' saving between 1955 and 1956 was in the form of increased equity in securities, reflecting repayment of security loans in 1956 in contrast to substantial borrowing on securities in 1955. New savings in corporate and government securities rose by $7.2 billion last year compared with $5.6 billion the year before. Individuals' savings deposits at banks, share accounts with savings and loan associations, and equity in government and private insurance reserves also increased more than in 1955.

Offsetting higher liquid saving was a continued advance in personal debt on mortgage and durable goods accounts. The increase of $13.6 billion last year, however, was considerably less than 1955's $18 billion advance. The lower rate of debt expansion reflected reduced purchases of consumer durable goods, increased repayment of obligations on outstanding debts, and the letdown in home construction — mortgage debt rose $1.3 billion less than in 1955.

Corporate Securities

New security offerings by corporations reached a record high in the first quarter. Reflecting peak level capital expenditures, offerings increased to $3.6 billion, 20 percent above the fourth quarter of last year and 60 percent more than in the first quarter.

The largest increase in the first quarter was in debt issues, to $2.8 billion, $900 million over the fourth quarter and a billion dollars above the opening quarter a year ago. Common stock issues totaled $750 million, down moderately from the previous quarter when they were inflated by a single large issue by AT & T, and double the year-ago volume. Manufacturing companies accounted for 55 percent of new common stock financing in the first three months of the year.

Most of the proceeds from new issues were earmarked for new money purposes. New money scheduled for plant and equipment expenditures amounted to $2.6 billion, a half billion more than in the fourth quarter and up $1.5 billion from a year ago. Requirements for working capital totaled $600 million. Demand for external funds for working capital has been declining since early 1956.

THE JET AIRPLANE OF 1959

HAL E. NOURSE
Vice President — Economic Controls, United Air Lines

The progress of air transportation has resulted from the industry's willingness to choose a bold path in the adoption of the latest and best technological developments in engines, aircraft, and operating facilities. The next step forward will be no exception to the past.

There are today over 1,300 aircraft in commercial operation, with speeds up to 365 miles per hour, flying over 1½ million miles per day, carrying 41 million passengers in 1956, serving about 550 cities of the country, over some 80,000 miles of route, with a much better safety record than the private automobile, and at fares practically unchanged in fifteen years. That summarizes where we stand in commercial air transportation near the end of the "piston" era, which, incidentally, has been a good one.

Today, the airlines of the United States have on order almost 400 jet airliners with a price tag of about 2.5 billions of dollars. Of these 400 airplanes, about 210 will be turbo-jets, the balance turbo-props. Both types of airplanes will use the principle of turbo power, in which thrust or power comes from the ejection to the rear of expanding gases from a combustion chamber. The turbo-prop uses most of its thrust power to turn a propeller, whereas the turbo-jet uses all its thrust to push the airplane forward through the air. Since this new type of power for air is so broad in its aspects and innovations, the following remarks will be confined to the full turbo-jet-powered airplanes of the Douglas DC-8 type. These airplanes are destined to bring a new high level in transportation.

Physical Characteristics — the Jetliner

In the past, before each new airplane was introduced, it was designed to provide higher speed, greater comfort, and greater dependability at a lower cost. The jet airliner of 1959 promises to do all of these things.

The DC-8 will cruise at about 575 miles an hour in still air at 35,000 feet altitude, or about 88 percent of the speed of sound. Under the same wind conditions the DC-7, our fastest present airliner, will do 365 miles an hour; the DC-6, 300 miles an hour; and the old reliable DC-3, 180 miles an hour. Thus in a score of years speed will have increased from 180 to 575 miles an hour, or over three times. The difference in speed between the DC-8 and DC-7 represents roughly a 60 percent increase.

Going back a score of years and leaving Chicago in a DC-3, you would be over North Platte, Nebraska, about the same time you would be circling for a landing at San Francisco in late 1959. Incidentally, in a streamlined train you would be pulling into Ottumwa, Iowa; and in a highway bus you would still be in Illinois when the jet lands in San Francisco.

The following are some specific examples of future schedules.

Required time	*Trip*	*Leave* (Local time)	*Arrive* (Local time)
1:40	New York to Chicago	5:00 PM	5:40 PM
4:10	Chicago to San Francisco	5:00 PM	7:10 PM (Full evening in San Francisco)
4:10	Chicago to San Francisco	7:30 AM	9:40 AM (Full day in San Francisco)
1:20	Chicago to Washington	6:00 PM	8:20 PM

The speed of the jet may itself present some schedule problems. The airplane will be so fast that its use overnight will be limited. For example, if you left Chicago at midnight, you would be rudely awakened on arrival in Los Angeles at about 2:00 AM Pacific Time (with the difference in time belts). Who would choose that kind of schedule? You could leave, however, at 9:00 PM and yet be in your bed by midnight Los Angeles time. This is good! Nevertheless, people will probably prefer to leave at the close of Chicago business and have the evening in Los Angeles.

Over a 24-hour period, a single jet airplane could start at New York City at 8:00 AM, fly nonstop to Seattle, have ample time for turnaround, leave Seattle in the late afternoon, and be back in New York City by 11:00 PM New York time. Not bad departure times anywhere. Or, it could fly to Seattle and make a round trip to Los Angeles during good daylight hours. Let me hasten to add that not every airplane in the fleet could be utilized so much — service, overhaul, and market limitations would prevent this.

The DC-8 jet airplane will weigh roughly twice as much as the DC-7, or about 265,000 pounds fully loaded. It will also carry about 120 first-class or 155 coach passengers, whereas the DC-7 capacity is 58 first-class or 86 coach passengers. Both airplanes have the ability to carry their full payload coast to coast in either direction, and the DC-8 will have capacity, in addition to its full passenger complement, for about four to six tons of baggage and cargo, depending on whether it is coach or first-class.

It is interesting to convert these factors of size, weight, speed, and schedules into terms of work the airplane can do. On the basis of speed alone, the DC-8 will fly as far in eight hours as the DC-7 does in 12½ hours, but, of course, this is only part of the story because the DC-8 has twice the number of seats. Relating speed and seats, the DC-8 will do in eight hours the equivalent passenger-carrying work of the DC-7 in 28 hours. The jet, therefore, is capable of performing about 3½ times the work in terms of seat-miles as the most modern airplane in operation today.

In terms of passenger-carrying capacity, the jetliner will do the work of four streamliner trains or 60 highway buses. It could carry as many passengers in a year's time across the North Atlantic as a large passenger-carrying ocean liner. Such statements represent the slide-rule approach, of course, but the basis for the relationships are correct according to the latest engineering data on the airplane of the future.

Capital Costs and Economies

The jetliner will do a tremendous amount of work in a given length of time, no doubt of that. But, "what *price* glory?" The word price should be emphasized because this airplane will be very expensive to buy and to operate.

A DC-8 jet airplane will cost some $5,000,000-plus and a DC-7 runs something under $2,000,000. Thus, the DC-8 will cost between 2½ and 3 times as much as the DC-7, but in terms of work done, the DC-8 will do roughly 3½ times that of a DC-7. This means economic

progress. Stated another way, if the total first cost of the jetliner and that of the present day DC-7 are related to their respective lifetime productive capacities in terms of seat miles, it is evident that the jet will produce twice as much per dollar invested as the DC-7. This is due to the two factors already discussed, speed and size, as well as to an expected difference in competitive useful life of the two airplanes.

The DC-7 is being written off over a seven-year span, whereas it should be possible to keep the jet in successful competitive service for at least ten years. Airplanes of the past have been capable of service physically beyond their ability to compete successfully. A new, faster, more modern, more economical design has come along and has been put in competitive service before the older model was worn out. It has been somewhat like buying a new automobile before yours wears out in order to be competitive socially.

The principal reason for competitive obsolescence in the case of airplanes is the constantly increasing speed of the newer designs. People want more and more speed and they will buy it in preference to a slower schedule, if it is available. The jetliner of 1959 and beyond will operate close to the speed of sound, and the cost of producing speed greater than the speed of sound would make the airliner prohibitive from an economic point of view. The increased power and weight and therefore cost required to break through the sound barrier is all out of proportion to the increase in speed to be obtained.

Undoubtedly the aircraft designers will eventually produce a successful commercial airplane that will break the sound barrier both as to *sound* speed and *sound* economics, but this seems a long way off at the moment. The time required between a commercial airplane's conception and its date of service inauguration is in excess of seven years. There are no supersonic commercial transports yet on the drawing board and probably will not be for several years to come. It will be economically good for the industry to have to wait quite a while for the supersonic age.

In the meantime, the power-speed-weight relationship of the coming jets will become a real economic stabilizing factor for the future of air transportation. It will allow us to really use the airplane — use it over its physical life, which will become more nearly synonymous with its competitive life. It will tend to reduce both the operating costs and the break-even load factor.

Operating Costs

The obsolescence and depreciation factor and its effect on reduced operating costs per unit of lift has already been discussed. One other factor which is expected to reduce costs is worthy of some treatment, namely, the simplicity of design of the jet engine compared with the piston engine. The jet engine has only one-tenth the number of moving parts that a large piston job has. The primary moving parts in a jet are moving constantly in one direction (rotary) whereas the major parts of a piston engine are required to reverse their direction constantly and at great speed. Offsetting in part, however, is the fact that the temperatures in the hot parts of the jet engine are much higher than those of the piston power plant. The metallurgists have done a magnificent job on the temperature problem by coming up with alloys that "love that heat."

Regardless of offsets, the simplicity of design will tend to reduce costs in two ways: (a) less overhaul costs per pound of engine, and (b) fewer metal fatigue problems throughout the aircraft structure because of reduced vibration.

When we first studied the economics of the jet, we were simply elated over the prospects of drastically reduced operating costs. Some of this elation has disappeared because of two basic factors which increase rather than reduce costs. One is the capacity of the engine to gulp fuel. That engine is really thirsty and the weight of fuel alone is almost equal to the weight of a DC-7 fully loaded and ready for take-off. Fuel costs will be high even though it uses fuel of lower grade than piston airplanes, which therefore costs less per gallon.

The other cost-raising factor is associated with the complexity of the systems designed into the new airplane, which results in increased maintenance costs per pound of airplane structure. Among these are ventilation, pressurization, lighting, cargo loading, heating, fueling, and other systems which will be integral parts of the new airplane. Some of this increased complexity is due to the high speeds and altitudes at which the airplane will fly.

This complexity of systems has an offset in the simplicity of cockpit design, with fewer instruments and levers to control the actual power and flight of the airplane.

Now, all this raises a lot of economic smoke, possibly creating a kind of haze. When all this smoke leaves, it becomes clear that the break-even costs on the jet will be the lowest in the history of the industry. The break-even factor in terms of percent of passenger load should be about 50 percent or lower on an annual basis. This is a substantial reduction from our present break-even factor of about 60 percent. These figures reflect overhead charges as well as direct operating costs.

This indicated lower break-even point will be an important improvement not only for us who are in the business, but for potential customers as well. With a lower break-even point, we can plan our volume of service and schedules in a manner which will not require a high factor to make an adequate profit. This means better service for customers when they ask for it. For us it means more business in the aggregate.

Jet Markets

A lower break-even point would of course be of no avail if the jet failed to generate markets to allow load factors in excess of break-even. Unless this happened, all the fine design and operating characteristics in the world would be useless. Much depends on the jet market.

First of all, the jet airplane likes the long haul; there is where it will pay off. No use getting up in the air 35,000 feet if you're not going somewhere. It must cater to the long-range passenger by proving its timesaving ability. It must operate for the most part at ranges from 700 to 2,700 miles. It will serve the great population centers of the country where high density markets exist, markets such as New York, Washington, Chicago, and Detroit, together with principal West Coast points. This is the way the service will start and it will extend into other centers as acceptance and the general traffic level rise.

The market must ultimately be measured in terms of paying customers. We say about 50 percent is low and 60 percent is high for break-even; in spite of this ten-point spread it will take 61 passengers per airplane to break even in a jet and only 35 per airplane on a DC-7. Thus, a frequency problem may be created: with the airplane so large, the market between points served by the jet will have to double or present frequency of schedule will

necessarily be reduced. Market size is itself influenced by the convenience and frequency of departure times.

The industry thinks it is doing well today in flying some 22 billion passenger miles in 1956 and carrying some 41 million passengers. In order to make the jets economical, these figures must increase greatly over the next decade, perhaps even double. We believe the passengers required for the jet era will be there, ready, willing, and able to go, but in order to project enough passengers and cargo for the jet age we make certain assumptions. They are

(1) Continued increase in population, 2 percent per year;

(2) Continued increase in economic activity, probably 3 percent per year;

(3) Continued increase in the acceptance of air travel; and

(4) Continued penetration by air into the rail and bus travel market. Today 36 percent of public carrier travel is in airplanes; of the first five passenger carriers in this country today, four are airlines, and the largest is an airline.

It is inconceivable that the additional speed and the smooth, vibrationless jet ride will not in itself help achieve the markets required.

Jet Era Problems

So far you have heard nothing but optimism about the airlines' future and the jet airplane. The introduction of this new type of power and additional speed will, of course, present a family of problems that will have to be solved. The following comments on some of these problems represent a sort of status report.

Obsolescence. As previously mentioned, the jet airplane will do a tremendous amount of work and will therefore make today's best piston aircraft obsolete. This will leave many surplus piston airplanes for other uses. For the past fifteen years, people have been saying: What will you do with the DC-3 when the DC-4 comes along, and what will you do with the DC-4 when the DC-6 and DC-7 and Constellations are available? Up to now, the world market for surplus airplanes has been very gratifying. The airlines have been able to dispose of such aircraft at prices much greater than book value at the time of sale. There is no question but that there will continue to be a world market for piston aircraft, but surplus aircraft could saturate the market very rapidly and consequently lower the price. This problem will take some thought and planning on the part of the airlines if it is to be solved successfully.

Noise. Certain communities of the country have become quite vocal with respect to jet noise associated with the full surge of power at take-off. Both the engine manufacturers and airframe manufacturers have set their best talent to work on the problem, and we are confident that the external noise can be kept within the limits of what we are accustomed to today in piston aircraft.

Blast. There has been some concern that when the jetliner taxis away from the loading gate, the blast of engine gases will be a definite nuisance to customers and their friends, as well as to airline personnel. Experiments with scientifically designed blast fences have been conducted with surprisingly good results. We believe this problem will certainly be solved to the satisfaction of all concerned.

Brake Power. The jet airplane will land at a considerably higher speed than the aircraft of today. With its momentum and weight it must, without some braking device, have a very long runway for roll. Again the manufacturers have largely solved this problem; a simple mechanical reverse thrust mechanism will do the job with the efficiency of the present-day propeller-reversing mechanism.

Runway Length. An airplane of 265,000 pounds gross weight will require runways of about 10,000 feet in length for take-off under the most severe operating conditions. In the beginning of the operation of jet aircraft, it is anticipated that markets of sufficient size to support the jet will be spread over about two dozen metropolitan centers of the country. There will be runway length problems in some of these communities, but the great majority of the centers to receive jet service during the early years either now have runways of sufficient length or are planning to complete them by 1960.

Field Terminal Facilities. Imagine what we call a triple-cross taking place, involving three jet airplanes at a Chicago airport. There would be three 120-passenger airplanes on the ground at one time, deplaning their passengers who will be meeting friends and relatives. Add to this the people who are waiting to board the same airplanes for some distant point, also accompanied by friends and relatives to see them off. Quite a crowd, perhaps several hundred people, would be milling about. The airlines are conscious of this problem and are active in planning solutions — solutions having to do with scientifically designed fingers and counters and the use of loading bridges to the airplane door, automatic conveyor systems for cargo and baggage, and enlarged floor areas and counter space within the terminals. A good example of the planning which can solve this terminal problem is that of O'Hare Field in Chicago, where a number of innovations are being installed to minimize the congestion problem.

There are, of course, many other technical and operating problems in connection with the operation of the jet airplane that are being worked on. It is said that when a situation is recognized as a problem and action is started, many times that problem is well on its way to final solution. The airlines, with their technical staffs, are certainly alert to the many situations that will require a brand new and innovative approach. We in the industry still have more than two years to work out solutions and you may be sure nothing will stand in the way of that wonderful air service of 1959 and beyond.

Summary

The following may be considered the most significant points in our rose-colored view of the fabulous new airplane of 1959:

The jetliner will have a tremendous capacity for work in terms of passenger-carrying ability.

Its operating economics are more favorable than any transport type designed to date, both as to first cost and operating cost.

The jetliner should have a long and successful economic life because of its great speed, which in turn will protect it from fast obsolescence.

The airplane should be a self-generator of markets because it will allow a great stride forward in fast, dependable transportation, particularly in medium to long hauls.

The introduction of the jetliner will bring with it a family of problems. The air transport industry and the manufacturers are alert to those problems. Solutions have been worked out or are being worked out with ample time for completion.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Rising Farm Land Prices

Farm real estate market prices in the United States continue to rise, according to recent reports from the United States Department of Agriculture. March 1, 1957, market prices for farm land and buildings registered a new peak of $94.52 per acre, an increase of nearly 7 percent over year-ago prices and 47 percent above the 1947-49 average. For the year ending March 1, farm land values increased in all except four states — Nebraska, Wyoming, Colorado, and New Mexico. Drought was one of the major depressing factors in those areas.

In addition to the influence of prosperity in the economy as a whole, farm real estate values have also been strengthened by increased demand from farmers for land with which to enlarge existing farms. As the cost-price squeeze has become more severe, more farmers have sought to expand their scale of operations in order to reduce unit costs.

To an increasing extent, farm land in many areas is valued on the basis of potential as well as actual uses for nonfarm purposes. An estimated one million acres a year is being absorbed for living space, factories, and service and recreational areas to meet growing population needs.

Picnic Time Once More

Camping trip hardships as well as those of one-day picnics are decreased with the aid of the Wagon-Galley, a new outdoor food chest produced by Randolph Enterprises, P.O. Box 51, Williamstown, Massachusetts. Made to fit any standard-size station wagon, this 42 by 24 by 24 inch chest has two compartments with both doors opening on the front for easy access. One space can hold 100 pounds of ice in addition to foods needing refrigeration, and the other has four storage shelves.

Barbecue enthusiasts will welcome the self-starting Neet-Heet charcoal briquet that is packaged in material made of molded wood pulp. Retailing for 39 cents, the package burns with the flick of a match and in turn ignites the charcoal. The briquets are packaged by the Diamond Match Company in Burnside, Kentucky.

Inland Waterways

New Dimensions in Transportation describes the industries served, the areas reached, and the services rendered by the inland waterway systems in the United States. A recent publication of American Waterway Operators, Inc., 1025 Connecticut Avenue, Washington 6, D. C., this 48-page pictorial booklet also includes a map of the various waterway routes. The Mississippi River System, including the Missouri, Illinois, Ohio, Tennessee, and Arkansas rivers, comprises over two-fifths of the total 29,000 waterway miles.

Geared to relatively flexible, low-cost delivery of basic raw materials, fuels, and semifinished and bulky finished products, these systems now move about 7 percent of the nation's total freight. This proportion should continue to increase as the waterways are improved and as industry becomes more decentralized.

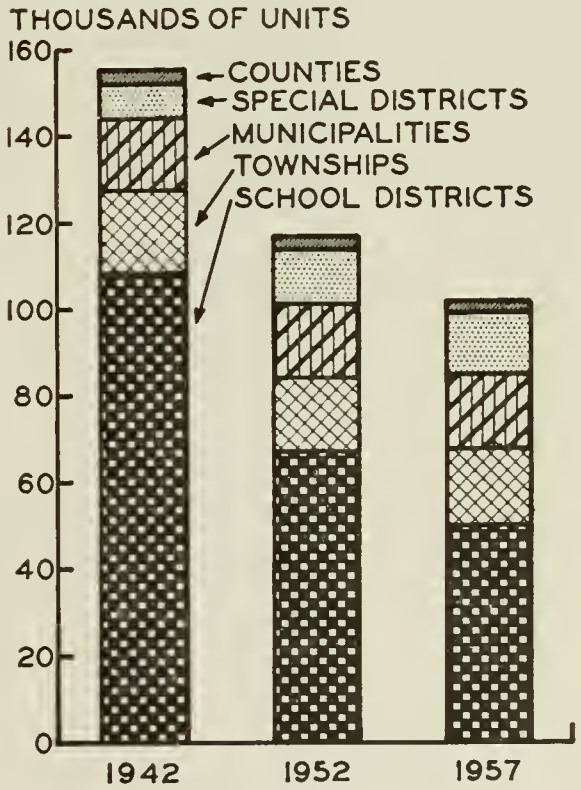
Topics included are types of craft operating on the inland waterways; sectors and industries of the economy served, such as agriculture, steel, coal, petroleum, chemicals, power, paper, and automobiles; and tables on freight ton-miles on the different systems for various commodities. Copies of this booklet are available upon request from the publisher.

Governments in the United States

Governmental units in the United States totaled 102,353 in January, 1957, according to a recent release by the Bureau of the Census. This represented a decline of more than one-tenth from the 1952 total and slightly more than one-third from the 1942 count. The most striking changes involved school districts. The 1957 total, reflecting a steady decline, was less than half that of 1942 as a result of extensive reorganization of school districts. On the other hand, a consistent growth in special districts over the 15-year period has boosted their total nearly 75 percent over the 1942 total.

Local school districts in 1957, numbering 50,453, accounted for more than half of the total local government units, as may be seen in the accompanying chart. Townships and municipalities each represent about 16 percent of the total, special districts about 14 percent, and counties nearly 3 percent. The number of governmental units per state averaged 2,132 and ranged between a high of 6,659 in Nebraska, where three-fourths were school districts, and a low of 91 in Rhode Island, which has no school districts.

LOCAL GOVERNMENT UNITS, 1942, 1952, AND 1957



Source: Bureau of the Census, *Governments in the United States in 1957.*

LOCAL ILLINOIS DEVELOPMENTS

Most indicators of Illinois business activity declined somewhat during April, 1957. The exceptions were prices received by farmers and business loans at leading Chicago banks, both of which increased slightly.

Year-ago comparisons, on the other hand, revealed increased activity in all areas except coal production and manufacturing employment. Chicago business loans rose more than 14 percent and life insurance sales 31 percent.

Electric Power Expansion

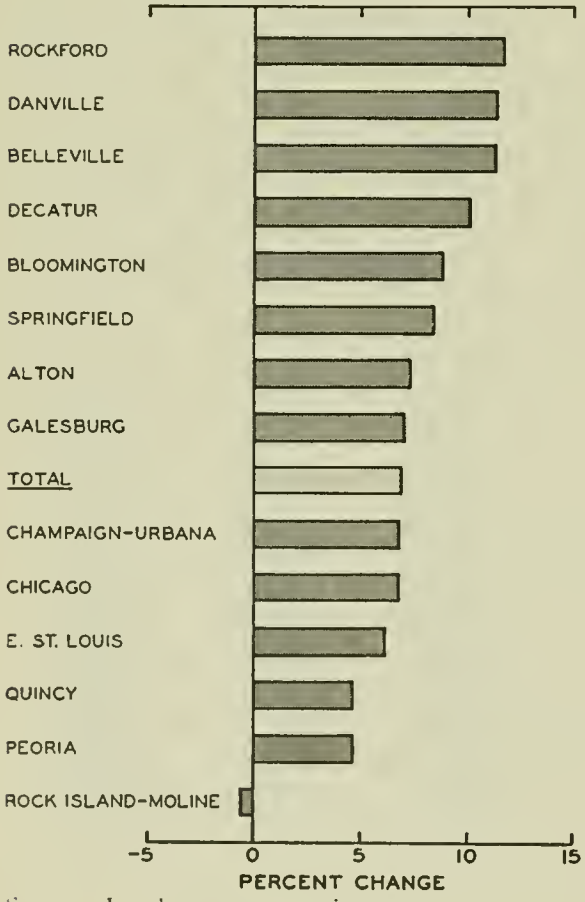
Increased business activity resulted in a gain of nearly 7 percent in the power used by major Illinois cities in 1956. With the exception of the Rock Island-Moline area, advances of 5 to 12 percent were recorded throughout the State. The sharpest rises were recorded in industrial centers (see chart). Power use in the Rock Island-Moline area fell slightly below the 1955 level. Falling sales and overstocked inventories in farm equipment, in addition to prolonged strikes, contributed heavily to the fall in electric power consumption in this area.

Crop Outlook

Excessive April and May rains have resulted in the latest Illinois planting season in 12 years, according to the Illinois Cooperative Crop Reporting Service. In addition to delayed planting starts for corn and soybeans, losses of small grains have been incurred because of drowning. Substitution of beans for some damaged grain acreage, replacement of corn with beans if planting continues to be delayed, and use of earlier maturing varieties of corn were some of the alternatives farmers were considering. However, Mr. J. A. Ewing, of the Reporting Service, stated that yields from short-season corn varieties are likely to be much smaller than those from the standard-season types.

Although planting is unusually late, farmers now have the best soil moisture conditions in several years. As a result, pasture and hay prospects are excellent.

CHANGES IN ELECTRIC POWER CONSUMPTION, 1955 TO 1956



Source: Local power companies.

Industrial Developments

Expansion of facilities by Illinois chemical companies in 1957 will result in an investment of more than $90 million, according to Mr. Jay H. Forrester, president of Amoco Chemicals. This figure includes some construction started in 1956 and comprises 32 projects. Predicting a continued growth of about $65 million annually for the next five years, Mr. Forrester states that Illinois ranks fourth in the nation in production of chemicals and allied products and third in employment. In the Chicago area, sales recently have amounted to about $1 billion annually.

In southern Illinois, the largest combined strip and slope mine in the United States is being developed at Freeburg in St. Clair County. Started in March, 1956, the River King Mine is expected to be in operation by late 1957. With an ultimate producing capacity of 4 million tons of coal a year, the mine's opening will create employment opportunities for several hundred miners.

Housing Starts by States

State estimates of nonfarm housing starts are now available on a quarterly basis with comparable data shown for the previous year. In an effort to develop more detailed geographical information on the volume of new home building, the United States Department of Labor's Bureau of Labor Statistics is introducing a new series in the May issue of *Construction Review*. The initial series includes 19 states and the District of Columbia, which together accounted for 75 percent of all new nonfarm housing started in the 1954-56 period.

In this first announcement, 65,800 housing starts were recorded for Illinois in 1956, an increase of 6 percent over 1954 starts and a decline of 13 percent from the 1955 total. With a 1956 State population of nearly 9.5 million, the rate of new starts per 1,000 persons was 7.0. A substantial part of the new housing was probably for replacement units because of a relatively small population growth and subsequent small expansion pressure in housing.

NOTE: The F. W. Dodge Corporation series on construction contracts awarded in the United States (pp. 4 and 12) has been revised as of January, 1957. The revised series includes data for 48 states instead of 37 as formerly and employs new techniques for compiling data on residential building. In order to link the two series, the three-month period of January through March of 1956 has been used. A comparative ratio of the estimated 48-state and 37-state data during that period is applied to the 1947-49 base to obtain a revised base. This base will be used until data are available for a 12-month link.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1957

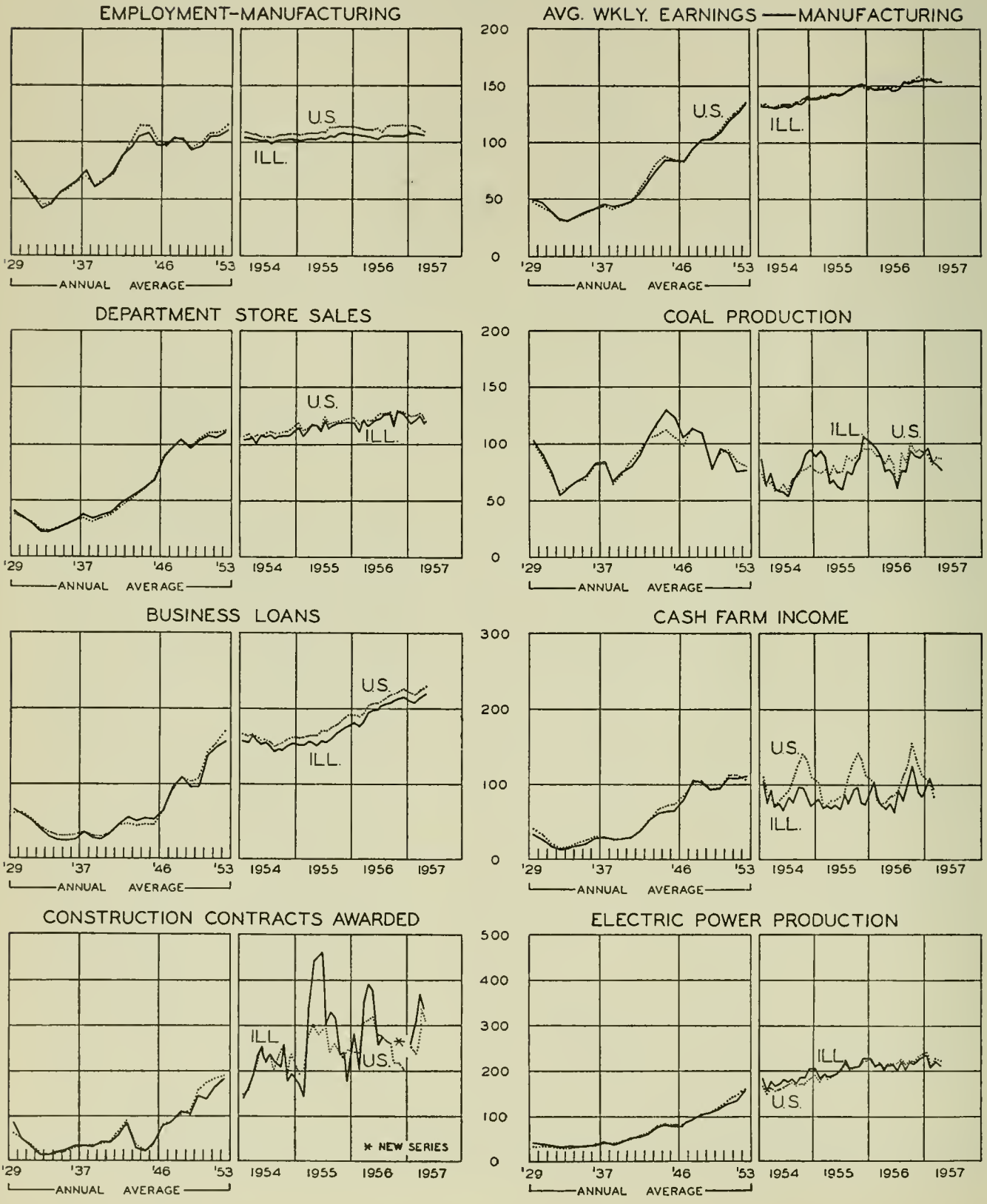
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$37,547[a]	1,106,023[a]	$520,303[a]		$15,350[a]	$13,955[a]
Percentage change from Mar., 1957	−7.1	−4.6	−5.4	+11	−9.4	−3.8
Percentage change from Apr., 1956	−1.7	+3.9	−0.5	+11	+7.2	
NORTHERN ILLINOIS						
Chicago	$24,445	832,644	$383,735		$14,026	$12,158
Percentage change from Mar., 1957	−22.5	−6.6	−5.2	+10	−10.0	−4.3
Percentage change from Apr., 1956	+3.0	+2.2	−1.5	+11	+7.4	
Aurora	$ 602	n.a.	$ 7,478		$ 61	$ 143
Percentage change from Mar., 1957	−12.6		−9.7	+24	−6.5	+9.6
Percentage change from Apr., 1956	−75.4		+0.4	+8	+9.5	
Elgin	$ 652	n.a.	$ 5,463		$ 40	$ 91
Percentage change from Mar., 1957	+33.6		−2.6	+5	−1.7	+10.8
Percentage change from Apr., 1956	+175.1		+6.8	+9	+8.5	
Joliet	$ 490	n.a.	$10,965		$ 77	$ 94
Percentage change from Mar., 1957	+7.0		−6.0	+22	−4.8	+2.8
Percentage change from Apr., 1956	−17.2		−2.5	+18	+4.3	
Kankakee	$ 186	n.a.	$ 4,502		n.a.	$ 47
Percentage change from Mar., 1957	−36.5		−1.7	n.a.		−5.1
Percentage change from Apr., 1956	−42.4		+6.6			
Rock Island-Moline	$1,277	24,906	$ 8,683		$ 96[b]	$ 151
Percentage change from Mar., 1957	+21.9	+11.4	−2.5	n.a.	−4.9	+13.9
Percentage change from Apr., 1956	+10.6	+9.3	−4.9		+11.5	
Rockford	$1,465	46,303	$16,758		$ 172	$ 232
Percentage change from Mar., 1957	+45.5	−3.6	−10.2	+26	−12.3	−0.0
Percentage change from Apr., 1956	−42.4	+23.1	−2.8	+35	+4.0	
CENTRAL ILLINOIS						
Bloomington	$ 108	8,473	$ 4,750		$ 64	$ 87
Percentage change from Mar., 1957	−88.0	+5.2	−0.7	n.a.	−0.4	−2.2
Percentage change from Apr., 1956	−63.8	+6.3	+3.7		+6.3	
Champaign-Urbana	$ 640	11,189	$ 6,902		$ 65	$ 88
Percentage change from Mar., 1957	+3.2	+2.7	+0.3	n.a.	−3.0	−13.3
Percentage change from Apr., 1956	−15.9	+9.6	+8.8		+1.1	
Danville	$ 184	12,350	$ 5,436		$ 50	$ 56
Percentage change from Mar., 1957	+46.0	+12.9	+1.0	+24	−7.6	+3.3
Percentage change from Apr., 1956	−63.0	+17.2	−1.2	+13	−5.8	
Decatur	$1,532	32,663	$10,871		$ 112	$ 110
Percentage change from Mar., 1957	+43.7	+3.4	−0.6	+20[c]	−9.9	−6.3
Percentage change from Apr., 1956	−55.7	+4.8	+3.1	+12[c]	−4.3	
Galesburg	$ 257	8,602	$ 3,768		n.a.	$ 35
Percentage change from Mar., 1957	−53.9	+0.7	−6.1	n.a.		+2.0
Percentage change from Apr., 1956	−41.5	+9.7	+2.8			
Peoria	$3,445	54,074[c]	$17,281		$ 230	$ 260
Percentage change from Mar., 1957	+670.7	+3.4	+5.7	+11[c]	+2.9	+10.5
Percentage change from Apr., 1956	+443.4	+9.0	+9.3	+3[c]	+3.6	
Quincy	$ 875	9,999	$ 4,370		$ 43	$ 66
Percentage change from Mar., 1957	+316.7	+8.4	−0.6	+28	+6.0	−3.3
Percentage change from Apr., 1956	+224.1	+8.3	+2.8	+9	+10.3	
Springfield	$ 416	32,301[c]	$12,934		$ 122	$ 217
Percentage change from Mar., 1957	+2.7	−0.1	+4.3	+15[c]	+2.6	−14.8
Percentage change from Apr., 1956	+39.6	+4.7	+8.5	+10[c]	+11.1	
SOUTHERN ILLINOIS						
East St. Louis	n.a.	11,129	$ 8,039		$ 152	$ 51
Percentage change from Mar., 1957		−2.5	−7.1	n.a.	+6.6	−9.4
Percentage change from Apr., 1956		−11.1	+1.5		+9.0	
Alton	$ 199	13,624	$ 4,224		$ 39	$ 31
Percentage change from Mar., 1957	−56.6	−5.1	−5.3	n.a.	+1.1	−6.6
Percentage change from Apr., 1956	−16.7	+6.9	−4.3		+2.5	
Belleville	$ 774	7,765	$ 4,144		n.a.	$ 40
Percentage change from Mar., 1957	+779.5	+2.6	−3.1	n.a.		+1.5
Percentage change from Apr., 1956	+187.7	+17.2	+5.3			

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for February, 1957. Comparisons relate to January, 1957, and February, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending April 5, 1957.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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HIGHLIGHTS OF BUSINESS IN JUNE

The economy reached the midyear point at a high rate of activity, indicating that the total value of goods and services produced in 1957 will be somewhat above the record $412 billion of 1956. Much of this increase will be due to price advances, with both consumer and industrial prices exceeding year-earlier levels.

The principal factors sustaining the boom during the past half year seem to have been higher rates of government spending, of consumer spending, and of net foreign investment. The high levels of activity in these sectors have so far served to more than offset declines in inventory accumulation and home building.

Diverse Price Movements

A $6 per ton average increase in the price of steel was announced at the end of June by the U. S. Steel Corporation, and other steel producers seemed certain to follow. The rise, which averages 4 percent, was defended by the corporation as necessary to offset higher wage rates taking effect July 1. The action came under strong criticism from a variety of sources: Labor leaders and some members of Congress contended the increase was unnecessary, since the corporation netted almost 10 percent on sales after taxes in the first quarter of this year; other steel producers asserted that the advance was insufficient to enable them to cover higher costs and finance modernization and expansion.

While steel prices were going up, prices of nonferrous metals were going down. Copper and zinc prices were each reduced by half a cent a pound. Fuel and natural rubber prices also showed signs of weakness, whereas farm products were somewhat higher.

As a result of these diverse movements, the comprehensive Bureau of Labor Statistics index of wholesale prices in June registered little change from the May figure. However, the consumer price index advanced again, rising three-tenths of a point in May to 119.6 percent of its 1947-49 average.

New Construction Peaks

The value of new construction put in place during June rose seasonally by 8 percent to $4.4 billion. This was a new high for the month, 2 percent above the previous June peak reached last year. Expenditures for nonfarm residential additions and alterations, public utilities, and public schools reached all-time highs. In addition, outlays rose to new highs for June for various types of commercial and industrial building, highway construction, and sewer and water facilities.

Construction activity for the first six months of this year also set a new record at $21.5 billion. This represented a 3 percent gain over outlays reported for the first six months of last year. It is also equivalent on a seasonally adjusted basis to an annual rate of spending of nearly $46.8 billion, which would be slightly above last year's high.

Public construction in the first six months of this year rose 11 percent over the first half of 1956. Private building was about the same as in the first half of 1956. Declines in private home building, store construction, and farm building were offset by increases in the construction of industrial property, office buildings, and other nonresidential buildings.

State of the Auto Industry

After a rather poor start in the first quarter of this year, auto sales in May and June improved sufficiently to bring the total for the half year to 3.1 million, within 3 percent of the figure for the first half of 1956. May and June were the first months this year that sales equaled or exceeded year-ago levels, though spring sales last year were relatively low.

Auto production in the first half of this year came to 3.4 million, nearly 6 percent higher than a year ago. In the spring of 1956, however, production had been cut sharply to reduce inventories. This year inventories have moved above those of last year, as the industry apparently wishes to provide dealers with sufficient inventory to carry them until the late fall when the new models will be in full-scale production.

Crop Production Down

Output of farm crops this year is likely to be 7 percent below last year's production and at the lowest level since 1951, according to a midyear forecast of the United States Department of Agriculture. Excessive rains appear to be the principal cause of the decline, producing a drop in crop yields, while the soil bank has served to restrict total acreage somewhat.

The heavy rains have lowered prospects for corn, cotton, soybeans, wheat, and other crops. The 1957 corn crop is forecast at 3.0 billion bushels as compared with 3.5 billion last year. Wheat production is predicted at 940 million bushels as against 997 million in 1956.

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ILLINOIS BUSINESS REVIEW

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Instability of Investment

Despite all the talk of unending inflationary pressure, business activity in the aggregate has not been rising. Gross national product in the second quarter of 1957 was about $6 billion higher than in the fourth quarter of 1956, but all of this advance represents price increases. In 1956 prices, gross national product remained unchanged. If consumer and government services are excluded, it declined a little. This is the same picture presented by the index of industrial production, which declined from 147 in December to 143 in May.

The facts indicate that the vigor of the boom has dwindled into stability. To many, this represents a most happy state of affairs. Among the factors commonly cited in support of expectations of continued stability, or even of further advance, are business expenditures for new plant and equipment. This factor is becoming crucial to an over-all forecast.

Is Business Investment Still Rising?

Most analysts apparently rely on the Commerce-SEC survey of capital expenditure plans for information on what is happening in this area. The survey has indicated a continuing advance from the first quarter rate of $36.9 billion — to $37.3 billion in the second quarter and $37.9 billion in the third quarter. As an illustration of the confidence placed in these estimates, one prominent economic columnist recently published the third quarter forecast as an actual fact!

This unsuspecting faith is surprising in view of the recent record. The last four preliminary forecasts — for fourth quarter, 1956, to third quarter, 1957 — have consistently run at the $38 billion level, with only a slight decline in the most recent figure. However, the actual results have consistently fallen short of the preliminary forecasts since the second quarter of 1956. The deficiencies for the four quarters for which actual results have so far been reported — second quarter, 1956, to first quarter, 1957 — have averaged more than $1 billion at annual rates. A similar discrepancy in the third quarter would mean a slight decline from the first quarter actual.

Other kinds of information bearing on the subject do not confirm the projected rise from the first to the second quarter of this year. The machinery and transportation equipment components in the index of industrial production show significant declines. Data on manufacturers' sales and orders for the same industries are also down. Although nonresidential construction is still rising moderately, the increase hardly appears sufficient to offset the declines in equipment.

There are, admittedly, difficulties in comparing these various sets of data — relating, for example, to the portion of total output going to government rather than to industry. But specific segments for which data are available, such as machine tools and railroad equipment, tend to confirm the pattern of decline in producers' durable equipment. (See chart, page 8.)

What's Wrong With Stability?

It may seem strange that anyone should feel concerned about stability at the current high level of prosperity. The reasons for this feeling may be illustrated by quotations from a recent statement by David L. Luke, Jr., president of the American Paper and Pulp Association.

He stated that the overcapacity which is already apparent in paperboard will soon spread to white paper lines, and that capacity will be out of balance with demand for at least two years.

"It is not lack of demand but growth in capacity that is creating the problem." Industry estimates indicate that another 15 percent is being added to capacity in 1957-59. This means "that it will take demand some time to catch up with expansion."

Difficulty for the industry arises from the fact that "profits are still being squeezed because of the inability in the present competitive market to raise prices enough to offset costs."

It may be inferred that Mr. Luke's remarks were directed primarily to his associates in the industry. He was calling upon them to do something to prevent the developments feared. One of the first things that could be done to prevent the excess from growing is to curtail expansion programs.

What is his own company doing? He indicated that West Virginia Pulp and Paper was continuing with its $100 million five-year capital spending program launched in 1955. "But the program, which is aimed more at modernization than expansion, will be somewhat more limited than we originally conceived. Actually, due to higher costs, it would cost $130 million to achieve that original program."

Note that this situation did not develop out of any decline in demand. Mere stability of demand poisons high-level investment programs.

Turn in the Investment Cycle?

If this condition were confined to the paper industry, there would be no need for concern. During the past year, however, it has become more nearly the general state of affairs throughout industry. The aluminum industry, another of the leading expanders in 1956, is in a similar position. In other industries, where demand has fallen, the need for restricting new investment is accentuated. The auto industry is leading the others in the current cycle, and its investment in 1957 is expected to be down almost a fourth from 1956. Most consumer durable goods industries are also over the hump. Steel and other metals are still running high but are headed for declines in 1958. Many of the machinery industries are eating into backlogs of unfilled orders at present rates of production. The commercial group (trade, service, and finance) is also

(Continued on page 8)

TELEVISION TODAY

When the Federal Communications Commission lifted the four-year "freeze" on TV station construction in 1952 there were 108 stations, most of which were located in the larger cities. Since then the total has grown to 470 stations in 299 cities. Last year 450 commercial and 20 noncommercial stations were sending signals to nearly 46 million sets in 72 percent of the nation's households.

Industry Trends

When prices of sets dropped following World War II, the demand for sets skyrocketed. This seemingly insatiable demand at first stimulated a host of manufacturers to enter the new field. But extreme competition in the industry has forced nearly two-thirds of them either out of business or into more specialized areas of television manufacture. For example, in 1950 about 140 manufacturers produced seven million sets. Last year only 51 manufacturers remained, but they built approximately the same number of sets.

The industry's amazing growth has created rich markets for distributors, servicemen, and broadcasters. There were 105,100 retail radio and/or television dealers in 1956, an increase of nearly 10 percent from mid-1952 when the "freeze" was lifted. Likewise, the number of repair shops grew from 13,000 to 23,000 between 1948 and 1954.

Of all the mass media, only television has enjoyed sharp increases in advertising volume during the past decade. Despite TV's rapid ascent, other mass communication agencies, except radio, have managed to maintain fairly well the shares of total advertising held in 1948. Radio advertising was struck hard. For example, TV received only 1.2 percent of all advertising income in 1949 compared with radio's 12 percent. By 1955 television received 11 percent of all advertising income in the United States whereas radio earned only 6 percent of the total. Nevertheless, this sponsor shift to TV has not changed the over-all demand for radio sets since 1949 because growing popularity of auto, clock, and portable models has offset the 33 percent drop of home radio sales between 1949 and 1956. And needs of government, industry, and foreign countries also have kept production up.

Set Saturation Near?

Despite TV's seemingly endless growth, indications of approaching saturation are appearing. Nearly four out of every five sets purchased since 1946 are still in use and seven of every ten households contain one or more sets. More than 94 percent of all TV sets made since 1946 have been purchased by domestic consumers, and during the past decade there has been a steady increase in exports.

From 1946 to 1955 there was a marked shift from the 15-inch to the 21-inch screen and from table models to consoles. But with the appearance in 1955 of the portable, sales for that model vaulted 500 percent in one year and accounted for nearly 18 percent of all sets sold in 1956. Growth of portables as an inexpensive second set has reduced sales of both table models and consoles. Meanwhile, the demand for 26-inch and larger screens has waned since 1953.

Last year was the greatest year yet for picture tube sales. This occurred only because "renewals" reached an all-time high; picture tube sales for new sets have leveled off commensurately with sales of new sets since 1953.

Old Problems Still Exist

The industry continues to have its old problems. The difficulty of what to do with UHF still exists. Since not enough VHF frequencies are available to provide a national TV service, UHF stations are essential. The problem is that UHF stations cannot consistently compete with VHF stations in mixed markets. Since 1955 the FCC has been contemplating the dilemma. Recently it decided upon two solutions: (1) Change all VHF stations to UHF or (2) shift frequencies from those areas where VHF and UHF overlap, except in large cities where each of three stations should be affiliated with a major network.

The problem of pay-as-you-see TV also remains unsettled. PAYS-TV operates on the principle that the viewer "buys" programs he wants instead of receiving those preferred by sponsors. The issue, pending since 1955, has been delayed by the FCC for further study of two major aspects: the possible injury to "free" TV, and the possibility of using wire dissemination exclusively instead of using scarce spectrum channels.

Though 51 percent of the nation's stations are equipped to carry network color programs, only 4 percent of the nation's sets receive color. However, the introduction of color sets should accelerate when prices are lowered.

Television in Illinois

Illinois has been a center of TV set production since the late forties. At present the State, with 9 major set manufacturers and 13 electronic tube manufacturers, including seven in the Chicago area, provides nearly a third of the nation's set output.

The State's consumers, an avid audience, possess 2.2 million sets. Only three other states have a greater number. Seventy-seven percent of Illinois households own one or more receivers.

Since 1952, Illinois has added 17 stations to its "pre-freeze" five. Chicago leads with five stations on the air and three others awaiting "target dates." Peoria, Rockford, and Champaign-Urbana each have two, and single stations have been opened in Bloomington, Danville, Decatur, Harrisburg, Quincy, Rock Island, and Springfield. Evanston also has a station awaiting a "target date."

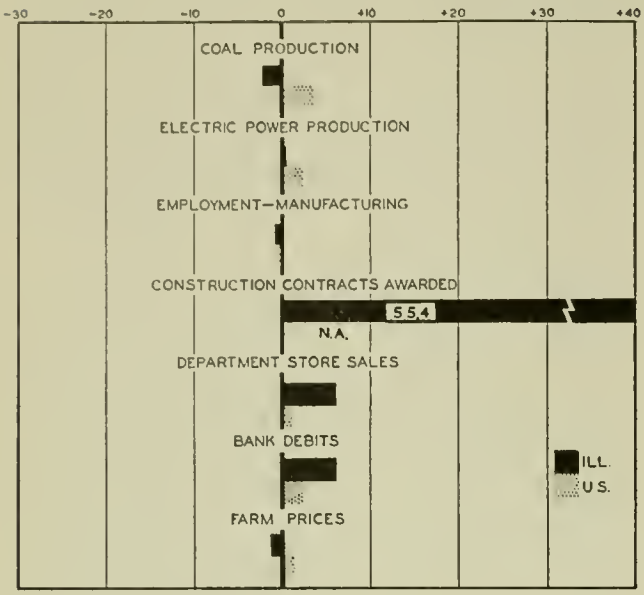
In 1954, Illinois ranked fourth in the number of stores in which TV sets are sold, with 2,595. The 1954 *Census of Business* reveals that those stores stood third in sales ($35 million) and third in number of employes (1,630). The State's lush market for TV sets has also created an equally prosperous subsidiary business — that of repair services. Although in 1954 the State ranked fifth in total number of repair shops, with 1,359, its total income of $28 million for these shops trailed only that of New York.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1957, to May, 1957



N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1957 (1947-49 =100)	Percentage change from April 1957	Percentage change from May 1956
Electric power[1]	209.9	+ 0.1	− 0.7
Coal production[2]	76.7	− 2.3	− 0.7
Employment—manufacturing[3]	105.9	− 0.9	− 1.9
Weekly earnings—manufacturing[3]	153.9[a]	− 0.8	+ 3.7
Dept. store sales in Chicago[4]	119.0[b]	+ 1.7	+ 2.6
Consumer prices in Chicago[5]	122.2	+ 0.2	+ 3.0
Construction contracts awarded[6]	525.1	+55.4	n.a.
Bank debits[7]	185.7	+ 5.8	+11.2
Farm prices[8]	80.0	− 1.2	− 2.4
Life insurance sales (ordinary)[9]	302.6	+ 4.9	+37.0
Petroleum production[10]	129.1	+ 2.8	+ 1.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] April data; comparisons relate to March, 1957, and April, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1957	Percentage change from April 1957	Percentage change from May 1956
	Annual rate in billion $		
Personal income[1]	340.4[a]	+ 0.3	+ 5.5
Manufacturing[1]			
Sales	343.2[a]	0.0	+ 2.9
Inventories	52.8[a, b]	+ 0.4	+ 8.6
New construction activity[1]			
Private residential	16.9	+ 8.1	+ 6.5
Private nonresidential	16.6	+ 8.3	+ 8.0
Total public	14.7	+15.7	+ 4.2
Foreign trade[1]			
Merchandise exports	22.3[c]	−13.1	+23.6
Merchandise imports	13.0[c]	− 3.4	+11.1
Excess of exports	9.3[c]	−23.8	+46.8
Consumer credit outstanding[2]			
Total credit	41.7[b]	+ 1.7	+ 7.1
Installment credit	31.9[b]	+ 1.2	+ 7.2
Business loans[2]	31.1[b]	− 0.9	+11.9
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	143[a]	− 0.7	+ 1.4
Durable manufactures	160[a]	− 0.6	+ 1.9
Nondurable manufactures	130[a]	0.0	+ 0.8
Minerals	128[a]	0.0	0.0
Manufacturing employment[4]			
Production workers	105	− 0.6	− 1.8
Factory worker earnings[4]			
Average hours worked	99	− 0.3	− 0.8
Average hourly earnings	155	0.0	+ 5.1
Average weekly earnings	154	− 0.3	+ 4.3
Construction contracts awarded[5]	n.a.	....	....
Department store sales[2]	125[a]	+ 2.5	+ 2.5
Consumer price index[4]	120	+ 0.3	+ 3.6
Wholesale prices[4]			
All commodities	117	− 0.1	+ 2.4
Farm products	90	− 1.2	− 1.5
Foods	105	+ 0.7	+ 2.5
Other	125	− 0.1	+ 3.0
Farm prices[3]			
Received by farmers	90	+ 1.1	+ 1.1
Paid by farmers	118	0.0	+ 3.5
Parity ratio	82[d]	0.0	− 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for April 1957; comparisons relate to March, 1957, and April, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	June 22	June 15	June 8	June 1	May 25	June 23
Production:						
Bituminous coal (daily avg.) ....thous. of short tons..	1,713	1,717	1,670	1,618	1,594	1,690
Electric power by utilities ....mil. of kw-hr....	12,337	11,958	11,550	10,936	11,574	11,478
Motor vehicles (Wards) ....number in thous....	141	148	153	100	151	127
Petroleum (daily avg.) ....thous. bbl....	7,238	7,294	7,338	7,418	7,457	7,056
Steel ....1947-49=100....	127	128	130	131	128	133
Freight carloadings ....thous. of cars....	747	746	733	672	723	799
Department store sales ....1947-49=100....	119	129	125	110	116	109
Commodity prices, wholesale:						
All commodities ....1947-49=100....	117.3	117.5	117.5	117.2	117.2	114.2[a]
Other than farm products and foods ..1947-49=100....	125.3	125.3	125.3	125.2	125.2	121.5[a]
22 commodities ....1947-49=100....	89.3	89.6	89.5	88.7	88.3	87.8
Finance:						
Business loans ....mil. of dol....	32,463	31,519	31,170	31,077	31,328	28,916
Failures, industrial and commercial ...number....	241	265	289	225	309	245

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for June, 1956.

RECENT ECONOMIC CHANGES

Manufacturers' Sales and Inventories

Manufacturers' sales held steady in May at the April level of $28.6 billion (seasonally adjusted). Sales of durable goods were off slightly and nondurables increased. Inventories moved up another $200 million to $52.8 billion, and new orders increased by $400 billion to $28.2 billion, a level still below shipments.

Movements of sales, orders, and inventories in durable goods industries, the more sensitive component, are depicted in the chart. Since the beginning of the year, orders have tended downward with the first increase of the year reported for May. Sales have fallen less than new business booked, and backlogs have been reduced. Although manufacturing output has fallen since January, production schedules have not yet been fully adjusted to the lower level of demand so that inventories of durable goods continued to mount into May. At the end of May the ratio of inventories to sales for durable goods industries was 2.18. This compares with a ratio of 2.04 a year ago and 1.82 in May, 1955, after the 1954 readjustment. In mid-1953, before the recession, the ratio was slightly less than 2.0.

Accuracy of Capital Outlay Anticipations

The most recent analysis of the Department of Commerce-Securities and Exchange Commission survey of capital expenditures appears in the June *Survey of Current Business*. The article summarizes the accuracy of manufacturing firms' anticipations and the reasons for departures of actual investment from programs initially reported.

The 1955 survey taken early in the year indicated a reduction in manufacturing expenditures from 1954. Actual outlays increased, however, as recovery in sales from the 1954 lows progressed. In 1955, the most important economic factors accounting for revisions in capital expenditure plans were changes in sales and earnings expectations. This was particularly true for firms that spent more than was originally planned. For firms that spent less than was anticipated, slower-than-expected construction progress was reported with greatest frequency as a reason for changes from investment anticipations. Large firms do considerably better than smaller ones in correctly anticipating plant and equipment expenditures a year in advance. This partly reflects more consistent use of capital budgets by the larger companies.

DURABLE GOODS MANUFACTURING

Source: U. S. Department of Commerce.

New Distribution of GNP

The Department of Commerce published a new breakdown of gross national product in the June *Survey*. The distribution gives GNP by durable and nondurable goods, services, and construction components. The data are further subdivided between final sales and total output including inventory changes. The estimates have been prepared in current and constant dollars for 1929-56. The breakdown is expected to prove useful for analytical purposes where it is desirable to consider the flow of goods separately from services and for appraising shifts in product composition that occur over time.

In 1956, nondurable goods and services each accounted for 34 percent of total GNP, durables made up 21 percent, and construction 11 percent. The most pronounced shift in composition between 1929 and the postwar period has been in the share of output accounted for by durables. In the postwar period durable goods have averaged over 20 percent of total production compared with less than 18 percent in 1929 and other years of the late 1920's. A major factor in the relative increase has been government purchases of military hard goods. The percentage of total outlays accounted for by producers' and consumers' durables has also averaged somewhat higher in the postwar period than in 1929. The 1956 share for services was less than in 1929, although services too averaged higher from 1947 to 1956 than at the prewar peak. This gain is again primarily attributable to government programs.

Foreign Purchases

Expanded foreign markets have provided a sizable outlet for American producers facing lagging domestic demand in recent months. Seasonally adjusted exports of goods and services totaled $6.7 billion in the first quarter, compared with $6.2 billion in the fourth quarter of last year and $5.6 billion a year ago. Imports, on the other hand, moved up only to $5.1 billion in the first quarter of 1957 from $5.0 billion in the fourth quarter and $4.9 billion a year ago.

The rise in exports was greatest in durable goods lines — iron and steel products, machinery, and vehicles — and in petroleum and agricultural products. The first quarter bulge in exports was due in part to temporary factors. The Middle East disturbances increased oil shipments abnormally, and poor harvests of wheat in Europe last summer contributed to unusual foreign demand for American wheat. Cotton exports have also been high but foreign cotton stocks have been rising in recent months. Shipments of machine tools abroad are running ahead of new foreign orders.

(Continued on page 8)

ECONOMIC IMPLICATIONS OF DISARMAMENT

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As disarmament talks appear more prominently in news reports, the probable economic implications of a sharp reduction in the nation's armaments budget become a matter of increasing concern. It may be assumed that international developments will, at some time in the future, permit a 50 percent across-the-board reduction in the national security budget and that such a reduction would become effective during the next 10 years. Needless to say, making such an assumption for purposes of this discussion in no way implies that substantial disarmament may be expected within the foreseeable future. Rather, the hypothesis of defense reduction presupposes that such a policy is consistent with the nation's security interest.

A 50 percent reduction in the size of the government's defense program would have many ramifications. The following brief remarks will be focused upon the economy as a whole. It is not possible in the space available to discuss the dislocating effects such a reduction could have on certain industries or particular areas.

The Experience of the Past

Demobilization: 1944-47. One way of evaluating the probable effects of a sharp reduction in defense spending would be to look at past experience. Between the calendar years 1944 and 1947, national defense spending, expressed in 1956 prices, dropped from $147 billion to $18 billion as a result of a very swift and almost complete demobilization. During the same period, the gross national product, also measured in constant 1956 dollars, dropped only from $333 billion to $290 billion. The reduction in GNP was one-third the reduction in national defense. In other words, two-thirds of the reduction in national defense spending was offset by increases in other components of the economy. Most of the reduction in defense spending was offset by a $34 billion increase in personal consumption, by a $30 billion increase in private domestic investments, and by some rise in nondefense government programs. This gives a reassuring picture, but should not lead to erroneous conclusions.

During World War II, earnings of individuals and corporations were very high and spending was curtailed. Thus individuals and, to some extent, state and local governments entered the postwar era with ample funds and a great backlog of demand. The same situation applied to a number of foreign countries. Furthermore, the withdrawal from the labor force of large numbers of women and other temporary wartime employees permitted the absorption of much of the additional manpower released by the demobilization. In addition, because of the war manpower shortage, enterprises in the United States were seriously understaffed. All these factors contributed to the relatively smooth conversion from a wartime to a peacetime economy. None of these factors would be particularly significant if we should shift from a high armament peace economy to a reduced armament peace economy.

Reduction in Defense Spending: 1953-54. More relevant is the experience of the period 1953-54 when national security spending was curtailed by a rate of about $10 billion. The recession of 1954 was in part the result of this curtailment in defense expenditures. This experience was also significant in that the recession was mild and of short duration. Other sectors of the economy, particularly consumer spending, private construction, and state and local programs, soon expanded sufficiently to make up for the curtailment in defense spending. In part these compensating increases reflect the operation of the so-called "built-in" stabilizers, particularly rising unemployment benefits and other payments of the government and falling Federal tax yields. In part, the expansion was the result of deliberate action by the government, such as easing credit terms, reducing tax rates, and promoting private construction.

This experience certainly disputes the thesis that the American prosperity is based exclusively on an increase in, or on the maintenance of, a high level of armament. It also proved that recovery even from a minor recession had to be promoted by deliberate fiscal and monetary policies. The experience is inconclusive, however, with respect to the economic effects of a more drastic reduction in defense programs.

A Look Ahead

For illustrative purposes three alternative full employment models of the gross national product have been prepared. One assumes no disarmament; one assumes a cut in national security programs to about one-half the present level; the third considers the possibility that security expenditures will be increased. Most of the discussion, however, will be concerned with the first two alternatives.

The calendar year 1965 will serve as the bench-mark for the projection, assuming that any major change in armament programs will take place in stages during the period beween 1960 and 1965. All estimates are expressed in 1956 prices. The accompanying table presents these alternative models.

National security expenditures in 1956 were $41.6 billion. Under present military programs, national defense spending by 1965 is estimated to rise to $46-47 billion. In a period of disarmament, however, defense expenditures are assumed to drop to $20 billion by 1965. It should be noted that the same level of full employment production is assumed for 1965 whether achieved with present or with reduced military programs.

The GNP projection for 1965 is based on the usual estimates of the increase in the labor force, increase in output per man, and so on. Alternative I assumes continuation of current programs for national security with an increase in nondefense government programs approximately in line with the rise in total production. It would indicate only a modest reduction in tax rates from present levels. Alternative II assumes that the suggested $26-27 billion reduction in national security programs is offset by an increase in personal consumption, in domestic and foreign investments, and in nondefense government programs. The figures are admittedly arbitrary and based largely on judgment.

It should be emphasized, however, that the compensatory increases would not take place automatically; they would require the support and adoption of appropriate government policies. Very large increases in consumption, investment, and government nondefense programs will be feasible and necessary over the coming decade even if defense programs continue at the present level.

The increase in all these nondefense activities would have to be $167 billion with present levels of defense programs, $193 billion with the assumed reduction in defense programs. In other words, seen in the perspective of a number of years, demobilization would not create an entirely new problem but would only add to the problems which we have to meet anyway in an economy of increasing productivity.

Promoting Compensatory Expansion

Consumption. The $120 billion increase in personal consumption between 1956 and 1965 under Assumption I would be largely accounted for by the increased earnings of a rising labor force. By 1965, about 10 million more persons will be employed with an average increase in earnings of about 2 percent a year. A moderate tax reduction would make but a modest contribution to the support of consumer buying. If, however, as is postulated in Alternative II, consumer expenditures are to be stepped up by an additional $10 billion, a policy calling for substantial tax reduction would be indicated. In this connection, those reductions in tax rates which would directly add to consumer purchases would be most effective, that is, reductions in excise taxes or in individual income taxes with particular emphasis on the lower income brackets. Since, as seems reasonable, some of this tax reduction would be used to increase savings, then the magnitude of the tax reduction would have to be correspondingly larger than the desired $10 billion increase in consumption suggested in our model.

Private Domestic Investment. The increase in private domestic investment — including business investment and residential construction — cannot be expected to occur automatically. A curtailment in defense contracts would suggest a reduction of investments in defense and defense-supporting industries. Because of the increase in private consumption, some additional private investment would be induced in industries producing consumer goods. However, only the most optimistic assumption would hold that these increases would exactly offset the curtailment resulting from the reduction in defense programs. To achieve such a compensating increase would probably require the development of special incentives, such as tax concessions in favor of more rapid expansion and modernization of plants and equipment. In addition, lending programs in support of residential construction and similar measures to encourage investment could be adopted.

Net Foreign Investment. A substantial disarmament program would presumably take place only if international tension were relaxed and if a further relaxation could be expected in turn as a result of the disarmament. Conditions would thus be created in which a significant increase in private capital export could be expected.

Any realistic appraisal of disarmament must presume that a reduction in defense spending and international tension will encourage an increase in private and possibly public capital export. In 1956, for example, about $2.9 billion was spent by the military in foreign countries, either by our troops overseas for purchase of foreign goods and services in the construction and maintenance of installations overseas, or for offshore procurement, military mutual support, and so on. A reduction in national defense spending presumably would reduce the amount of dollars available to foreign countries and may increase the need of some of these countries for loans and outside capital investment. Peaceful developments assumed, the ability of the United States to supply this capital should be greatly increased.

Hence the $2.6 billion increase in net foreign investment assumed in Alternative II over 1956 may appear modest. However, if disarmament takes the form of a gradual shift beginning before the year 1965, a significant increase in United States foreign investment would already have occurred prior to 1965. The assumed level of receipts by the United States resulting from those foreign investments would clearly be substantial by 1965. The $4 billion net investment assumed in Alternative II would, therefore, imply that the level of gross capital export would exceed those receipts by $4 billion. In other words, the gross capital export would have to rise substantially.

Nondefense Government Programs. Alternative II assumes an increase in nondefense spending by Federal, state, and local governments of about $35 billion in 1965 over 1956. This appears as a very large increase indeed. As a share of GNP, however, nondefense government spending would increase only from 9.3 percent in 1956 to 12.7 percent in 1965. It would not be difficult to apply this increase in expenditures to useful and needed projects. Glaring deficiencies currently exist in our public programs for education, medical facilities, water resources, conservation measures, transportation, and recreational facilities. The Department of Commerce has recently estimated that a total of $200 billion in expenditures over a 10-year period will be needed if urgent deficiencies in state and local programs are to be met. With rising population — especially in the metropolitan areas — all levels of government will face formidable tasks in the next few decades.

The seriousness of the problem has been set forth in a recent joint statement of the National Planning Association signed by more than a hundred leaders in agriculture, business, labor, and the professions. This statement, entitled "National Investment for Economic Growth," points out that during recent years we have neglected to provide adequately for those public services which are of greatest value for promoting rising productivity of the people and of our industrial plant and resources. "It would be a tragic paradox," the statement says, "if a nation, which emphasizes the role of private enterprise in economic growth, permits these defi-

Gross National Product
Calendar Year 1956 and Alternative Projections for 1965
(Billions of 1956 dollars)

Item	1956	1965			Difference between 1965 I and II	Change between 1956 and 1965 II
		I	II	III		
Gross national product	412.4	584.0	584.0	600.0	0	+171.6
National security expenditures	41.6	46.5	20.0	66.5	−26.5	− 21.6
Personal consumption	265.8	385.0	395.0	377.5	+10.0	+129.2
Private domestic investment	65.3	88.0	91.0	95.0	+ 3.0	+ 25.7
Foreign net investment	1.4	1.5	4.0	1.0	+ 2.5	+ 2.6
Government purchases, other than for national security	38.3	63.0	74.0	60.0	+11.0	+ 35.7

Sources: 1956, *Economic Report of the President,* January, 1956; 1965, National Planning Association.

ciencies to continue and thereby fails to give private enterprise the public support it needs to carry out its functions."

The following estimates for those areas in which future additions to government expenditures may be most appropriate in the event of a substantial reduction in armaments are offered only as a very rough indication of possible increases in nondefense programs, particularly of state and local governments. Alternative II for 1965 assumes a $36 billion increase in our nondefense programs over those of the base year 1956. The increase could be broken down as follows:

	Billions
Highways, skyways, metropolitan access roads, and other means of transportation	$ 8.0
School construction	4.0
Education, operating expenses	11.0
Urban water supply and water conservation	3.0
Hospitals	2.5
Miscellaneous public works	2.5
Other government activities (excluding social security benefits and interest payments)	5.0
Over-all increase	$36.0

These nondefense government expenditure programs are of particular strategic importance for our problem because they are under the most direct influence of the government. Spending in these areas of economic activity could be slowed down if other elements should show an unexpected increase. If other increases do not come up to expectation, spending could be accelerated. The existence of such great deficiencies in these fields should silence those who maintain that we cannot afford disarmament because it would lead to mass idleness.

Summary

Under present conditions we must be prepared, and well prepared, to meet a possible increase in international tension. And yet, we should also be prepared, and well prepared, to make adjustments to a reduction in armament.

Consideration should be given to preparing specific policy measures which could be adopted in order to facilitate the adjustment of the economy to a possible major cut in national security spending:

(1) A tax reduction program to support consumer purchasing power and to promote business investment;

(2) A credit and monetary policy designed to promote residential construction and state and local government investments;

(3) A substantial increase in productive government nondefense programs on the Federal, state, and local government levels.

In a growing economy we shall have to deal with problems of tax, fiscal, credit, wage, and price policies, whether defense spending is increased, reduced, or maintained at present levels. There will also be problems related to specific areas and specific industries.

American prosperity does not rest on high armament. We are capable economically of affording high and even rising programs for national defense if the international situation requires it. We can also afford disarmament if the international situation permits it and if we are prepared to adopt the measures necessary to facilitate the transition to a truly peacetime economy. There are many urgent tasks which because of high levels of defense spending can now be met only inadequately. We should welcome the possibility of redirecting to these tasks some of the resources now used for armament.

Instability of Investment

(Continued from page 2)

cutting back, making a delayed retreat in line with the decline in home building.

The industries still showing definite tendencies toward advance are primarily three: chemicals, petroleum, and electric utilities. None of these is immune to the kind of developments described. Chemicals and petroleum are complex industries in which some segments have reached the point of saturation while others are still advancing. Electric power is a special case because of the long period required for expansion. Present plans will produce surplus capacity by the end of 1958 even if power use continues upward at the rates of recent years; but so far in 1957, the rate of advance has distinctly slowed. In the last boom, the peak of investment expenditures in the utilities was reached in 1930, after the economy generally had turned down.

There is nothing in sight to prevent further declines in the segments that have already turned down or to keep the advancing segments steady at the highs. Once an over-all decline gets under way, it will react on all the segments to accelerate program cutbacks. The prospective decline in fixed investment from the present peak promises to dominate business developments for the next two or three years. VLB

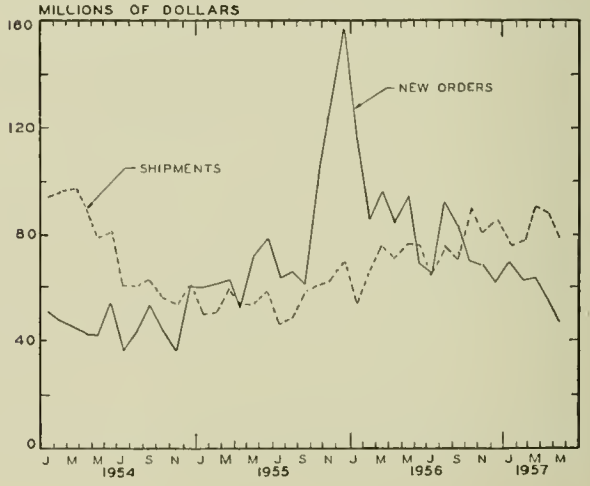
Recent Economic Changes

(Continued from page 5)

Tool Demand Off

The precipitous decline in new orders for machine tools evident since the end of 1955 continued into May (see chart). New orders declined 17 percent in May to $45.9 million. This was less than half the year-ago volume and was close to the 1954 average. Shipments also dropped back in May, to $78.7 million from $87.8 million in April. Shipments so far in 1957 have averaged about $85 million a month, well above new orders. As a result, backlogs of unfilled orders have been trimmed considerably. In May the industry estimated its backlog to be 4.6 months' work at the current rate of shipments. This compares with the 1956 peak of 8.6 months and the 1954 low of 3.1 months. Three months is the smallest backlog experienced by the industry in the postwar period.

MACHINE TOOLS



Source: National Machine Tool Builders' Assn.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Office Tips

Recent publications aimed at more efficient office procedures include *Practical Office Timesavers*, a 279-page book compiled by the National Office Management Association. Each short-cut suggestion is accompanied by a before-and-after description indicating benefits that can result from the adoption of each of a variety of methods. Such topics as filing, billing, typing, tabulating, purchasing, and paying are covered. This book, priced at $5, is available from the McGraw-Hill Book Company, 330 West 42nd Street, New York 36.

The *Manual of Office Reproduction* outlines reproduction processes and imprinting methods such as photocopying, microfilming, data processing equipment, punched tape, and automatic typewriters. The author, Irvin A. Herrmann, has included a comprehensive table which indicates the advantages and limitations of each process. The manual is available for $3.25 from the Office Publications Company, 232 Madison Avenue, New York 16.

A free booklet, *The Tape Recorder in Business and Industry*, is available from the Minnesota Mining and Manufacturing Company, Department M7-108, 900 Bush Avenue, St. Paul. This 41-page booklet explains time- and money-saving possibilities available through the use of tape recorders in the areas of management communications; methods and procedures; personnel, sales, advertising, and public relations departments; and factories.

Peak Male Income

The median income of men reached an all-time high of $3,600 in 1956, according to the United States Bureau of the Census. This record level represented a gain of about $250 over that of the previous year and was double the $1,800 median for 1945. In contrast, the median income of women in 1956 was $1,100, about the same as in the preceding four years and 27 percent above the 1945 figure. Although wage rates had also increased sharply for women during the postwar period, the effect has been partially offset by a rising proportion of part-time workers.

A similar picture of sharp pre-tax income gains for men and little change for women was recorded in the median figures for both farm and nonfarm residents. Income for farm men reached $1,500, a gain of $120 over 1955, whereas the income of women remained at $500. Income for nonfarm men jumped $250 to $3,900, with that of women remaining at about $1,300.

Safety First

The ABC of Fire Protection outlines the advantages of fire protection systems and includes an explanation of economic benefits such as insurance savings which are afforded by proper fire protection. Available from "Automatic" Sprinkler Corporation of America, Youngstown 1, Ohio, this 36-page, illustrated booklet covers the complete range of "Automatic" protection components and systems and their various applications.

Zonalarm, an automatic fire alarm system designed primarily to meet the needs of semicommercial buildings, small businesses, and medium-size and small factories, is manufactured by the Edwards Company, Inc., 90 Connecticut Avenue, Norwalk, Connecticut. Each detector protects approximately 400 square feet of unrestricted area. The installation warns of fire immediately, shows its location, and switches automatically to battery operation in the event of power failure, according to the producer.

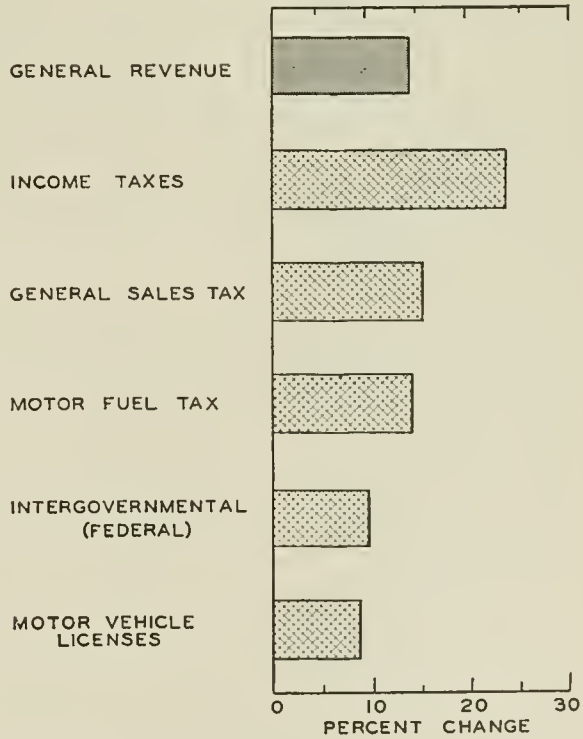
Another type of protection is gained through the use of a window lock obtainable from Pilgrim Products Company, 10 Clarence Street, Worcester 5, Massachusetts. The locks are made to fit all standard-size wooden-frame windows, and the manufacturer states that these locks cannot be forced or pried open. Two-lock packages are priced at $1.

Increasing Revenue

General revenue of state governments climbed to an all-time high of $18.4 billion in fiscal 1956, an increase of 13.6 percent over the 1955 amount. All major sources contributed to the 1955-56 rise (see chart). The largest percentage and absolute gains were recorded in income tax receipts, both individual and corporate, which rose by nearly one-fourth ($433 million). General sales and motor fuel taxes also had above-average advances. On the other hand, receipts from motor vehicle licenses and intergovernmental revenue from the Federal government recorded lesser gains. A major part of the advance in intergovernment revenue resulted from larger Federal grants for highways and education.

Some increase in general revenue was reported for each of the 48 states. Gains of one-fifth or more were recorded in Alabama, Arizona, Idaho, Maryland, Nevada, Oregon, and Wisconsin. Total Illinois general receipts increased nearly one-sixth.

STATE GENERAL REVENUE
Percent change, 1955 to 1956



Source: Bureau of the Census, *Compendium of State Government Finances in 1956.*

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity was maintained at an even level during May, with most major indexes moving in a narrow range. Coal production showed the greatest decline, slightly more than 2 percent, and construction contracts awarded jumped more than 55 percent, the only indicator to gain more than 6 percent.

Year-ago comparisons indicated higher 1957 rates of activity in most segments of the Illinois economy. Life insurance sales showed a substantial gain, 37 percent; business loans at leading Chicago banks and bank debits rose more than 10 percent.

Elevators — Large and Small

A 6.5 million bushel elevator, representing an $8 million investment, was recently opened in Chicago. Leased to the Illinois Grain Corporation, the Gateway elevator has eight dock spouts capable of loading vessels at the rate of 100,000 bushels an hour. Additional facilities are 14 miles of roads, 500,000 square feet of warehouses and sheds, and 6,000 feet of dockage.

This structure is one phase of the $24 million Lake Calumet expansion program. The completion of the St. Lawrence Seaway and improvements on the Illinois inland waterway system could make storage facilities at this point of great economic value.

An elevator on a smaller scale is nearing completion at Carlinville, Illinois. The new $96,000 structure, built by the Macoupin Elevator Company, will replace one destroyed by fire in 1956.

Atoms for Peace

The world's largest all-nuclear power station, which will cost $45 million, is scheduled for completion in 1960. To be owned and operated by Commonwealth Edison, the Dresden Nuclear Power Station is co-sponsored by seven other power companies. It is located on 950 acres of land near Morris, Illinois, and will be in the shape of a 190-foot sphere. The 60 tons of uranium that will be used as a six-year fuel supply is equivalent to more than 3 million tons of coal. A 40-year uranium supply has been allocated by the Atomic Energy Commission.

Estimated power cost is approximately three-quarters of a cent per kilowatt-hour. This is comparable with the cost of a coal-fired plant.

Corn Tests and Results

Tests are in progress at the University of Illinois to determine under what circumstances it is practical to eliminate plowing of corn fields and how much to eliminate. An estimated $1 per acre is saved for each trip dropped. Four plots representing conventional plowing, plow harrow plant, plow plant, and press wheel plant indicate no discernible difference between the methods. Thus minimum tillage of corn appears to be promising.

The value of deep tillage is being tested at the Cooperative Agronomy Research Center at Southern Illinois University. In a plot 30 by 100 feet, the top 36 inches of soil was removed, mixed together, and divided into five parts for the controlled application of fertilizers. The corn planted in 1956 in the restored earth showed that fertilizer doubled the yield, and deep tillage absorbed water faster. However, the roots followed the fertilizer and not the tillage. Consequently, the value of deep tillage appears to be dubious.

In another set of tests, attempts have been made to find ways to control corn insects. Since 1949, the Illinois Natural History Survey has worked on the problem of controlling such pests as wireworms, rootworms, and white grubs by means of insecticide treatments of the soil before planting. At planting time in 1953, experiments were begun in which liquid and granular forms of the insecticides aldrin and heptachlor were applied by row treatment and broadcast methods. Records showed the insecticides to be 75 to 98 percent effective with an average increase of 700 plants per acre. Only half of this number would have been sufficient to pay for the treatment costs.

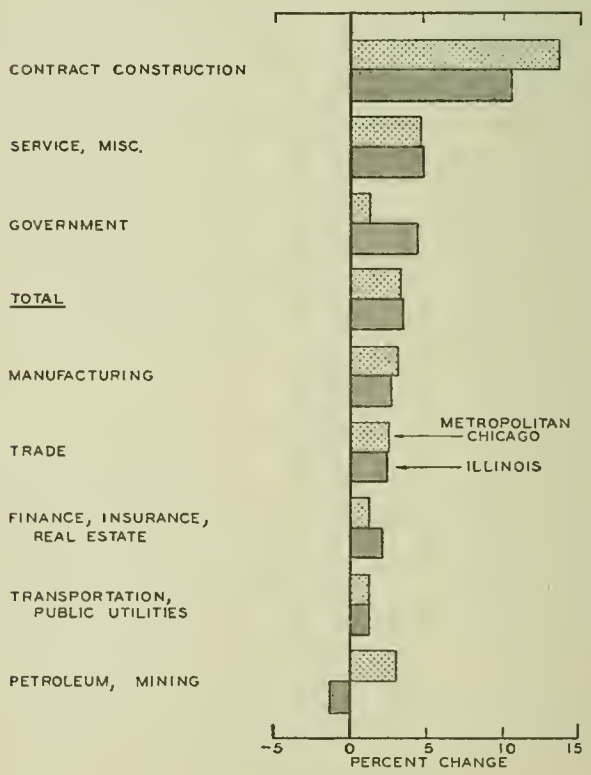
Nonagricultural Employment

Total nonagricultural employment in Illinois averaged 3.5 million in 1956, a new high, according to the Illinois Department of Labor. The 1956 figure represented an increase of more than 3 percent over the previous high established in 1955.

Employment in manufacturing industries, averaging about 1.3 million, accounted for one-third of the increase and represented nearly two-fifths of total nonagricultural employment in 1956. Durable goods dominated the picture with a gain of 35,000; little change was reported for nondurables. Together with advances in employment in manufacturing industries, gains in contract construction, service and miscellaneous industries, and the transportation-communication-public utilities group accounted for nearly 85 percent of the total increase.

The greatest relative change was recorded in contract construction, which rose more than 10 percent (see chart). Illinois service and government categories also had above-average gains.

NONAGRICULTURAL EMPLOYMENT



Source: Illinois Department of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$37,303[a]	1,081,905[a]	$604,203[a]		$16,236[a]	$12,838[a]
Percentage change from Apr., 1957	−1.2	−2.0	+4.7	+6	+5.8	−8.0
Percentage change from May, 1956	−10.7	+3.1	+11.0	+2	+11.2	
NORTHERN ILLINOIS						
Chicago	$27,530	823,876	$442,230		$14,846	$11,176
Percentage change from Apr., 1957	+12.6	−1.1	+4.0	+8	+5.8	−8.1
Percentage change from May, 1956	+0.3	+3.8	+10.8	+3	+11.5	
Aurora	$ 129	n.a.	$ 8,655		$ 67	$ 128
Percentage change from Apr., 1957	−78.6		+2.6	−8	+9.9	−10.1
Percentage change from May, 1956	−77.3		+7.8	0	+10.2	
Elgin	$ 767	n.a.	$ 6,400		$ 44	$ 92
Percentage change from Apr., 1957	+17.6		+2.3	−7	+10.7	+0.7
Percentage change from May, 1956	+41.0		+14.9	−3	+11.1	
Joliet	$ 810	n.a.	$12,522		$ 82	$ 83
Percentage change from Apr., 1957	+65.3		+2.9	−1	+6.2	−11.2
Percentage change from May, 1956	+70.9		+8.3	−3	+5.3	
Kankakee	$ 422	n.a.	$ 5,334		n.a.	$ 44
Percentage change from Apr., 1957	+126.9		+10.5	n.a.		−6.2
Percentage change from May, 1956	+78.1		+11.3			
Rock Island-Moline	$1,073	22,089	$10,655		$ 106[b]	$ 123
Percentage change from Apr., 1957	−16.0	−11.3	+5.4	n.a.	+10.4	−18.4
Percentage change from May, 1956	+21.5	+3.7	+13.3		+14.5	
Rockford	$1,689	42,490[c]	$20,483		$ 195	$ 186
Percentage change from Apr., 1957	+15.3	−4.6	+7.1	n.a.	+13.0	−19.7
Percentage change from May, 1956	−57.8	+1.8	+10.5		+12.1	
CENTRAL ILLINOIS						
Bloomington	$ 158	8,103	$ 6,000		$ 66	$ 85
Percentage change from Apr., 1957	+46.3	−4.4	+12.8	n.a.	+2.8	−1.4
Percentage change from May, 1956	−56.8	+2.6	+15.5		+8.3	
Champaign-Urbana	$ 521	9,955	$ 8,729		$ 68	$ 95
Percentage change from Apr., 1957	−32.4	−11.0	+10.9	n.a.	+5.0	+7.7
Percentage change from May, 1956	−4.9	−0.2	+18.8		+0.9	
Danville	$ 202	10,997	$ 6,869		$ 49	$ 61
Percentage change from Apr., 1957	+9.8	−11.0	+14.9	−12	−0.5	+9.0
Percentage change from May, 1956	−54.2	+10.0	+17.4	+3	−0.0	
Decatur	$ 787	31,321	$13,566		$ 120	$ 99
Percentage change from Apr., 1957	−48.6	−4.1	+11.6	−5[c]	+7.5	−9.7
Percentage change from May, 1956	−40.3	−2.7	+17.1	+1[c]	+3.0	
Galesburg	$ 401	8,392	$ 4,660		n.a.	$ 32
Percentage change from Apr., 1957	+56.0	−2.4	+7.0	n.a.		−7.1
Percentage change from May, 1956	+17.3	+3.0	+17.3			
Peoria	$ 906	52,106[c]	$18,706		$ 231	$ 206
Percentage change from Apr., 1957	−73.7	−3.6	+2.0	−4[c]	+0.1	−20.5
Percentage change from May, 1956	+164.9	+0.4	+7.9	−7[c]	+3.6	
Quincy	$ 310	9,742	$ 5,302		$ 43	$ 52
Percentage change from Apr., 1957	−64.6	−2.6	+9.3	−9	+1.4	−21.6
Percentage change from May, 1956	+9.5	+13.1	+7.8	−4	+8.4	
Springfield	$ 468	30,683[c]	$14,721		$ 124	$ 261
Percentage change from Apr., 1957	+12.5	−5.0	+10.7	0[c]	+1.4	+19.9
Percentage change from May, 1956	−79.1	−3.5	+11.7	−2[c]	+10.7	
SOUTHERN ILLINOIS						
East St. Louis	$ 254	11,110	$ 9,734		$ 153	$ 52
Percentage change from Apr., 1957	+13.9	−0.2	+7.0	n.a.	+0.1	+3.2
Percentage change from May, 1956	−77.1	−11.7	+11.1		+8.9	
Alton	$ 110	13,583	$ 4,711		$ 43	$ 26
Percentage change from Apr., 1957	−44.7	−0.3	−5.2	n.a.	+8.4	−16.8
Percentage change from May, 1956	−50.2	+4.0	−0.5		+0.9	
Belleville	$ 766	7,458	$ 4,926		n.a.	$ 37
Percentage change from Apr., 1957	−1.0	−4.0	+3.9	n.a.		−8.9
Percentage change from May, 1956	+240.4	+19.7	+15.6			

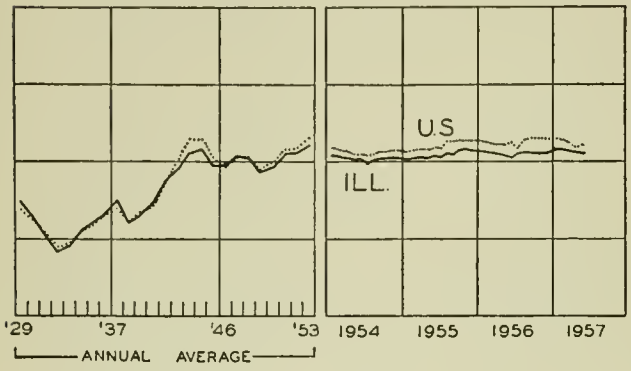
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for April, 1957. Comparisons relate to March, 1957, and April, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending May 31, 1957.

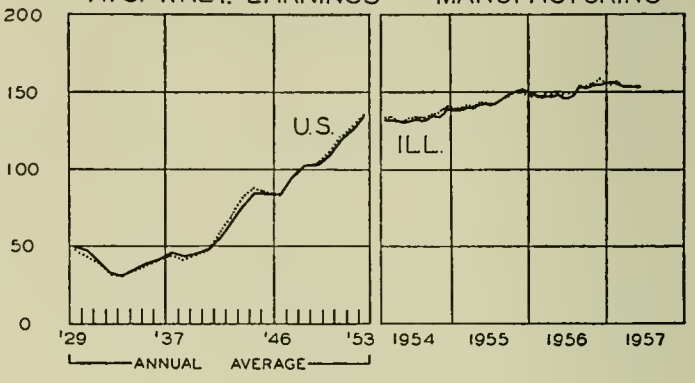
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

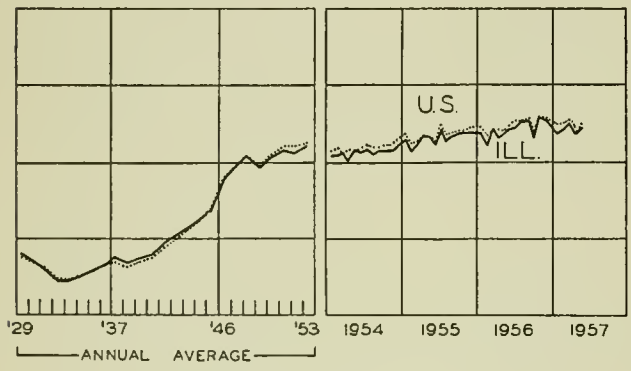
EMPLOYMENT–MANUFACTURING



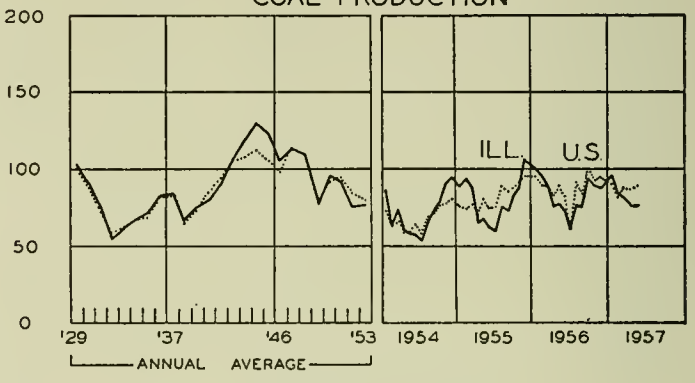
AVG. WKLY. EARNINGS —MANUFACTURING



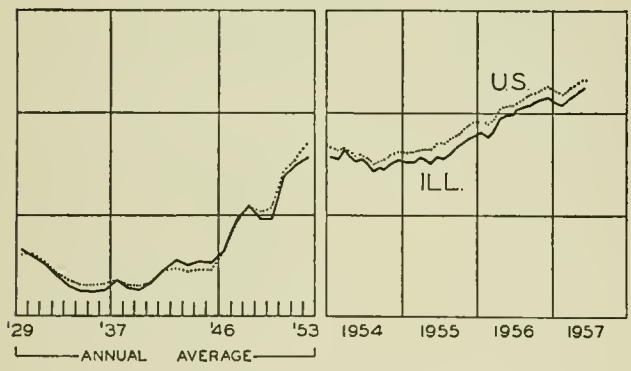
DEPARTMENT STORE SALES



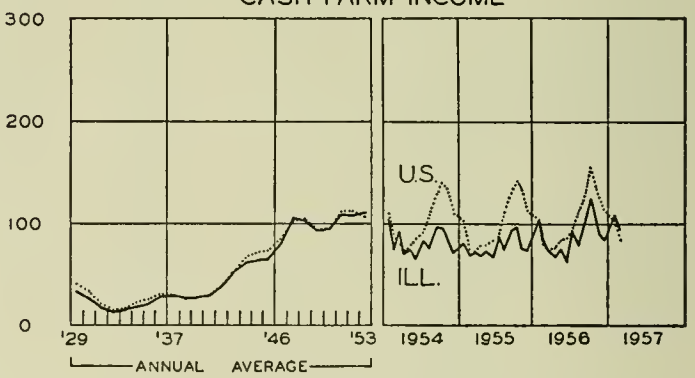
COAL PRODUCTION



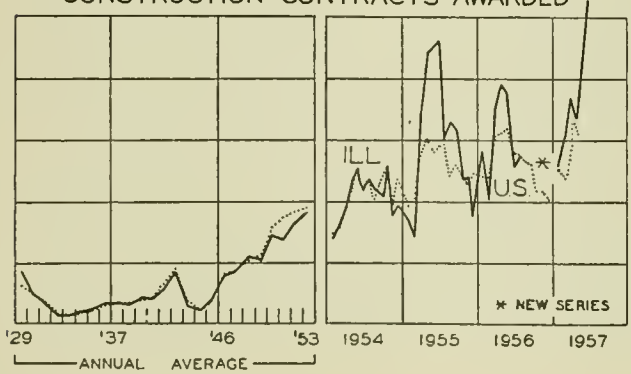
BUSINESS LOANS



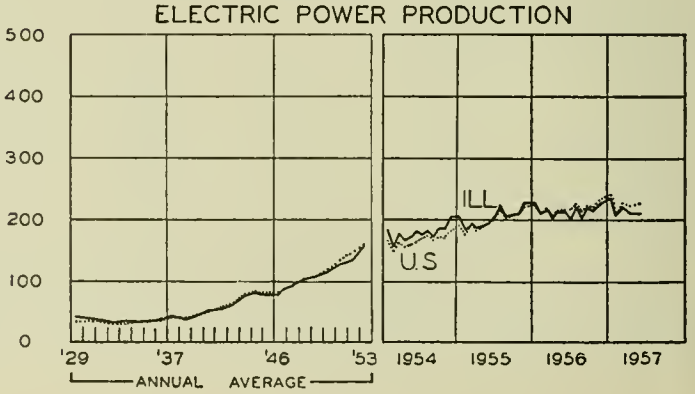
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JULY

Economic activity in July continued at a high level, although many indicators were below previous peaks. Comparisons with July, 1956, are distorted by the effect of the steel strike last year which abnormally reduced the level of many business series. For this reason July, 1955, serves as a better basis of comparison.

Production indexes for steel, automobiles, bituminous coal, paperboard, and lumber in the early part of the month were all running below July, 1955; and the last two items, unaffected by last year's steel strike, were below July, 1956, as well. Petroleum output, although still above the 1955 month, was running below July of last year, continuing the sharp decline from the Suez peak reached in March. Total carloadings were down from July, 1955, and heavy construction awards were off from the corresponding month in both 1955 and 1956.

Electric power output in July held at about the same level above 1956 that it has throughout the year to date, if allowance is made for the strike-caused low of last July. Department store sales continued to hold up well, in recent weeks running about 4 percent above the corresponding period last year. Wholesale prices showed the sharpest rise of the year, reflecting the steel increase and further advances in food prices.

Employment Holds at High

Employment in June achieved a new high for the month of 66.5 million, up 1.3 million from May and about 400,000 from June, 1956. The influx of students and graduates into the summer labor market accounted for most of the increase over May in employment and in the labor force, as it did for the 600,000 addition to the unemployed. If this and other seasonal factors are eliminated, total employment has shown little change since mid-1956.

Seasonal gains in agricultural employment of 900,000 and in nonagricultural employment of 400,000 accounted for the higher job total. Manufacturing employment increased 80,000 to 16.8 million, a smaller rise than usual for June. Further employment reductions in a number of durable-goods manufacturing industries partially offset the summer expansion in such industries as lumber and food processing.

Machine Tool Orders Sag

Net machine tool orders in June of $42.9 million, although up more than 3 percent from the two and one-half year low in May, were still 31 percent below a year ago. With shipments running far ahead of new orders and continuing to rise as they have for the past nine months, unfilled orders at the end of June were down to 4.2 months' backlog on the basis of past shipping rates — a decline of about 50 percent in the past 15 months.

In part, the lower level of net new orders in recent months reflects extensive cancellations. These have been running between $4 million and $5 million, but in June they jumped to $11 million. Some $7 million of the cancellations in June were Air Force contracts, which shifted away from manned aircraft to guided missiles. Some tool makers fear that further cancellations will come from aircraft subcontractors whose operations will be affected by the changes in Air Force plans.

Budget Surplus

The Federal government reported a budget surplus for the year ended June 30 of $1.6 billion. Receipts totaled almost $71 billion, nearly $3 billion more than the preceding fiscal year and almost $300 million above the Administration's January estimate. Expenditures were placed at slightly more than $69.3 billion, also about $3 billion above fiscal year 1956 and $440 million above the January estimate.

The government ended the fiscal year with a cash surplus of less than $3 billion, compared with over $5 billion for the preceding year. Trust account receipts and withdrawals are included in the cash figures. There was an unexpectedly large increase in Social Security benefits, as women made eligible by recent legislation and self-employed farmers presented claims. It is now estimated that the Social Security System will pay out more benefits than it collects in taxes during this year and the next two.

Because of the annual vacation of the University Print Shop this issue of the *Review* is reduced in size. It omits the usual statistical data, which are generally not yet available. We shall be glad to send copies of the missing tables to anyone requesting them. The next issue will contain the usual 12 pages.

ILLINOIS BUSINESS REVIEW

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After the Lull Ends

"Business activity is unchanged. So is the outlook." Both optimists and pessimists are in these terms enabled to hold to their established positions for the time being.

The economy has held remarkably steady through the first half of the year — a period commonly referred to as "The Lull." Conditions have been variously described as "spotty," "characterized by crosscurrents," and "a mixed pattern within a stable aggregate." The question is, Which way will business move when the lull ends?

Business Investment Points the Way

The latest estimates by the Council of Economic Advisers show gross national product rising $4.4 billion to a second quarter annual rate of $433.5 billion. Half of the rise, $2.3 billion, took the form of a renewal of inventory accumulation. Most of the other half reflected continuing advances in personal and government services. Aggregate flow of goods and construction did not increase significantly in dollar terms and decreased in terms of physical volume.

This point is emphasized because of its implications for business investment. The adequacy of both industrial capacity and business inventories must be judged in relation to the flow of goods. There is nothing in the latest developments to controvert the prospect of an imminent downturn resulting from overexpansion. Investment in business fixed capital was discussed in the last issue and need not be considered further at this point.

New information on residential construction makes the housing picture look somewhat stronger than was indicated here two months ago. A Census Bureau report indicates that vacancies declined a little during the past year. In addition, new housing legislation makes more funds available for mortgage loans and authorizes lower down payments; the latter provision is permissive only, but will be used if weakness persists. The effects of these changes are difficult to evaluate. They will tend to stabilize building but seem likely to act as temporary holding measures only, without sufficient effect to keep the downward phase of the cycle wholly under control.

If there is to be any notable increase in gross private capital formation during the latter part of the year, therefore, it will have to take the form of increased inventory accumulation. Analysts who think this likely appear to be way off base. There is no foundation for the statement made by some that an inventory adjustment has been completed. Except for the effects of the Suez crisis in bailing the oil industry out of the excess inventories accumulated last year, there has been no net liquidation.

Others have contended that inventory-sales ratios are improving. This is equally fallacious. The general movement of inventories has been up, and of sales, down. Month by month the ratio of inventories to sales has been rising. For manufacturers, it was 1.85 at the end of May, the highest since early 1954, and somewhat higher than at the 1953 peak just prior to the recession.

There is little likelihood that business will want to accumulate inventories still faster. The best that can be said is that business is not concerned about present holdings. The auto industry, for example, has been continuing to add to inventories that are more than ample. If for any reason business becomes fearful, the reversal will have a far more seriously depressing effect than the moderate letdown in rate of accumulation thus far experienced.

Consumption Will Go Along

There is a wide disparity between what business is experiencing and what it expects. Thus, the latest figures for the steel industry show continuing weakness, but executives state that production will pick up in the fall, with increased buying by the auto industry. The auto industry in turn has been hard put to maintain sales near last year's despite further easing of credit terms.

Most of the hope for a rise in auto sales is based on the fact that installment contracts from the peak 1955 model year will be running out. The rebound could then occur on either of two hypotheses. One is that the burden of debt is easing. However, outstanding debt is currently reaching new peaks. In May, credit extensions were at a record high for the month, but the strong rise in repayments over the past two years kept the increase in debt well below that of May, 1955. Repayments will continue to rise, lagging as usual, so that the burden of monthly charges on consumer income will also be achieving new peaks in the months ahead. It is significant that credit expansion was at a faster rate in the second quarter but consumer expenditures for durable goods declined.

The other hypothesis about auto sales is that consumers will insist on replacing their cars on a basis which keeps their monthly payments on auto debt at the same level. This is an interesting but not highly plausible speculation. The devices that resulted in the exceptional sales stimulus of 1955 have been exploited and cannot be anywhere near so effective again. In view of the increased market saturation, sales are likely to decline further, and the decline will accelerate if business weakens.

Other consumer spending cannot be expected to hold the line. True, wage rates, personal income, and retail sales in some lines have continued to advance. These are all well-known lagging series in the business cycle; they tell little or nothing about the underlying direction of change in the economy. In the second quarter, consumption in real terms was down from the first quarter despite the continuing rise in services. It will continue to go along with investment if there is any serious weakening in general business.

Can Optimism Prevail?

There are evidently several possibilities for recession, and these might become sharp declines if business attitudes shift away from the prevailing optimism. On the

(Continued on page 8)

AIR CONDITIONING AND REFRIGERATION

Although refrigeration is generally considered a relatively recent process, it is actually very old. Refrigeration by natural ice has been known for thousands of years. The first known artificial means of producing ice was introduced in Great Britain in 1834 by an American. Other systems followed. The Confederate States acquired a French ice-making apparatus during the Civil War when the natural ice supply from the North was cut off.

Domestic refrigerators were nearly unheard of before World War I, though some were available by 1911. Air conditioners, which have similar refrigerating characteristics, were not used in the home until after 1930 despite extensive application in some manufacturing plants. After air conditioning was first used in a movie theater in 1925, its use quickly spread to other large establishments such as restaurants and department stores.

Scope of the Industry

The refrigeration industry in the United States is complex, its products having many uses. The industry manufactures equipment ranging from industrial, commercial, and domestic refrigerators to milk coolers, automatic merchandising machines, and complete air-conditioning units. It has grown from 343 establishments in 1939 to nearly 600 in 1956, with the most rapid growth coming shortly after World War II. In the same period the value added by manufacture increased 580 percent from $147 million to $1 billion.

Despite the nearly 600 establishments, the industry is centered about the 10 largest firms, which in 1954 accounted for nearly 47 percent of the total value added by manufacture and 48 percent of the total employees. The entire industry employs about 128,000 persons, one-third of whom are engaged in making home refrigerators.

Home and Business Refrigeration

With the extension of domestic electrification, the refrigerator has become commonplace in the American home. Last year only 6 percent did not have refrigerators. In Illinois this percentage was even smaller.

Despite the large number of plants in the industry as a whole, the nation's entire output of domestic refrigerators is produced by only 22 establishments. Most of these plants are large; the average employment is nearly 2,000 workers. The 18 home and farm freezer manufacturers, together with the home refrigerator companies, shipped a total of 4.6 million units valued at $1.5 billion last year.

Postwar improvements in refrigeration, combined with changing marketing patterns, have led to development and expansion in uses of refrigerated units. For example, the producers of self-service beverage dispensing machines increased shipments of units 48 percent between 1947 and 1954. In addition, the type of self-service fostered by the growth of supermarkets, which account for more than 50 percent of all food sales, has increased the need for refrigeration equipment and has created a switch from closed to open refrigerated cases. The growth in sales of prepackaged frozen foods has been an important factor in this greater need for refrigerated display space.

Air Conditioning

One of the significant postwar industrial developments has been the rapid growth of air conditioning. Despite this growth, only 2.6 million of the nation's 46 million homes could boast air conditioners last year. Even home freezers, as a supplement to the family refrigerator, were more common — there were 7.7 million of them in the nation's homes.

Although sales of room air-conditioning units have risen steadily each year since 1946, their manufacturers face the recurrent problem of seasonality; most of their sales occur in the summer months. Central units which cool the entire house and operate alternately with the central heating system are linked primarily to new home construction because in most cases they are not easily installed in existing structures. On the other hand, room air conditioners, which exceeded all production records last year when more than 1.5 million units were shipped, have been popular because of lower prices.

The greatest untapped market is unquestionably in existing dwellings — the 43 million homes with no air conditioners. Sales of 4 million units from 1954 to 1956 still leaves 94 percent of the homes without air conditioners.

The Industry in Illinois

Illinois with 56 plants ranks third in total number of establishments manufacturing refrigeration machinery. Moreover, half of the State's plants have 20 or more employees. Only New York State has a greater number of plants as large. More than 6,500 persons are employed in all refrigeration manufacture in the State.

In the entire industry Illinois was sixth in value added by manufacture during 1954. Moreover, the State gave signs of becoming even more important. For example, from 1947 to 1954 the value added by manufacture increased from 4 percent to 7 percent of the national total.

Home refrigerators, mostly manufactured in the Chicago area, are the State's foremost refrigeration product. Trailing only Ohio and Indiana, Illinois shipped mechanical refrigerators valued at $66 million in 1954, the most recent Census count for the State. Illinois is also a large producer of other types of refrigerating machinery, such as the automatic merchandising machines used for soft beverages. In 1954 it produced more than one-fifth of the national total. And during the same year it ranked third in production of compressors. In the production of air-conditioning and large refrigeration equipment, Illinois turned out nearly 10 percent of the total value of shipments in 1954.

The trends that have advanced the refrigeration industry are continuing. Addition of new households, increasing demands for frozen foods, and new applications of refrigeration for industrial and commercial use appear to ensure growth of the industry in Illinois.

RECENT ECONOMIC CHANGES

Vacancy Rate Down

The Census Bureau reported a further decline in housing vacancy rates for the first quarter. According to the results of its January-March samples, vacancies dropped to 2.3 percent of the total stock of available nonseasonal houses for rent or sale from 2.7 percent a year ago. The decline was in the "for rent" portion. Vacant houses for sale accounted for only five-tenths of 1 percent of the stock, the same as in the first quarter of last year and in early 1950.

Manufacturing Output and Hours

Manufacturing production in June remained at the April-May level (seasonally adjusted), 2 percent below the first quarter and 1 percent above June of last year. The near-record level of output was maintained in the second quarter even though employment and hours worked have been declining (see chart). Between the first and second quarters man-hours dropped more than 3 percent.

Currently man-hours are only slightly above the early 1954 level whereas output has increased 15 percent. The short-term productivity gain is further reflected in the fact that output in the second quarter equaled that in late 1955, but 7 percent fewer man-hours were being used than a year and a half ago.

Despite the reductions in the average workweek in manufacturing, workers in these industries are taking home larger pay checks than a year ago. In June average hourly earnings amounted to $2.07 compared with $1.97 last June, and weekly earnings averaged $82.60 compared with $79.20 last year.

MANUFACTURING PRODUCTIVITY

Sources: Federal Reserve Board and U. S. Department of Labor.

Gross National Product Up

The nation's output of goods and services continued upward in the second quarter, according to preliminary estimates by the Council of Economic Advisers. Slightly over half of the advance represented a shift from moderate inventory liquidation to accumulation between the first and second quarters. A reduction in consumer expenditures for durable goods of almost a billion dollars was more than offset by higher outlays for nondurables and services, so total consumer expenditures rose by $1.1 billion. Government expenditures also continued upward, rising by $1.7 billion during the quarter.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	*2nd Qtr. 1957**	*1st Qtr. 1957*	*2nd Qtr. 1956*
Gross national product	433.5	429.1	410.8
Personal consumption	277.8	276.7	265.0
Durable goods	35.0	35.9	33.3
Nondurable goods	138.1	137.3	132.7
Services	104.7	103.4	99.0
Domestic investment	64.8	62.7	65.3
New construction	32.8	32.8	33.6
Producers' durable equipment	30.5	30.7	27.2
Change in business inventories	1.5	−.8	4.6
Nonfarm inventories only	2.0	−.3	5.0
Foreign investment	3.5	4.1	1.2
Government purchases	87.3	85.6	79.3
INCOME AND SAVINGS			
National income	n.a.	355.1	340.6
Personal income	342.4	337.7	325.3
Disposable personal income	299.7	295.5	285.8
Personal saving	21.9	18.9	20.8

* Preliminary estimates by Council of Economic Advisers.

Expenditures for private fixed investment held at about the first quarter level. Outlays for nonresidential buildings increased but expenditures for residential buildings and producers' durable equipment declined slightly more. Also on the negative side was a half billion dollar reduction in our foreign balance.

Business Population Rises

The number of business concerns operating in the United States totaled 4.3 million at the beginning of 1957, up more than 50,000 from a year earlier. In 1956 approximately 381,000 new businesses were established, 327,000 were discontinued, and 327,000 were transferred to new owners. These totals approximated the 1955 experience. However, in 1956, a smaller proportion of new businesses were established in the second half than in 1955, in part reflecting the slowdown in business expansion.

The business population increased by about a third between the immediate prewar period and 1956. The greatest relative growth in number of firms occurred in contract construction, which made up only 6 percent of the population in 1941, compared with 11 percent at the beginning of 1957. The proportion of operating firms accounted for by retail trade declined from 47 percent to 44 percent, whereas the proportions for other industries were about the same in 1957 as in 1941.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Boating Boom

Boating has entered the field of big business, according to a recent release by the American Finance Conference. A broad range of sizes and prices allows the consumer to obtain a small, open boat with motor and trailer for less than $1,000 or a cabin cruiser for $6,500 to $75,000. Prefabricated hulls and kits also are available for those interested in doing it themselves. The boom in boating popularity has been attributed to its desirability as a family sport, to the development of less expensive marine equipment, and to the increasing availability of consumer credit in the marine field.

Most popular of all boat types is the outboard motor boat, which accounts for more than three-fourths of the 6 million boats in general use. Total sales in this segment of the industry were nearly $355 million in 1956, a jump of more than 50 percent over the previous year.

Irrigated Land Gains

The acreage of irrigated land increased about 14 percent between 1949 and 1954. An estimated 31.5 million acres were receiving water to supplement rainfall in 1956. The 17 western states account for 91 percent of this land. If Arkansas, Florida, and Louisiana are included, 98 percent of the national irrigated acreage is included. Nearly 15 percent of the total cropland in these 20 states is irrigated.

Irrigation is no longer restricted to the arid and semiarid sections of the West. Although essential in those areas for intensive crop production, it is also being utilized in other geographic areas. Supplemental irrigation in the East has boomed since World War II. Irrigated acreage in the 28 eastern states jumped from 60,000 in 1945 to 600,000 in 1954 with indications pointing to a continued expansion through 1956. The major uses of the supplemental water in the East are for rice, Irish potatoes, pasture, corn, cotton, and tobacco.

Multiple Jobholding

Approximately 3.7 million persons held more than one job during the week ending July 14, 1956, according to a survey conducted by the United States Bureau of the Census. Results from a similar survey, conducted in July of 1950, indicated about half as many persons working at two or more jobs at that time. Part of the difference in the results of the two surveys is attributable to expansion in trade and service industries which has provided increased opportunities for "spare time" work. Another factor in the increase is the trend toward a shorter full-time workweek in some sectors of the economy.

More than 11 percent of all agricultural workers had multiple jobs (see chart), whereas less than 5 percent of the total number of workers in nonagricultural industries had more than one job. However, with the nonagricultural industries category accounting for nearly nine-tenths of total employment, the estimated average for all employment was held down to 5.5 percent.

The number of persons having concurrent farm and nonfarm jobs was estimated at 1 million. Of these, 60 percent had primary nonfarm jobs, but worked at some time during the survey week on a farm. Almost a half million farm workers held two or more farm jobs.

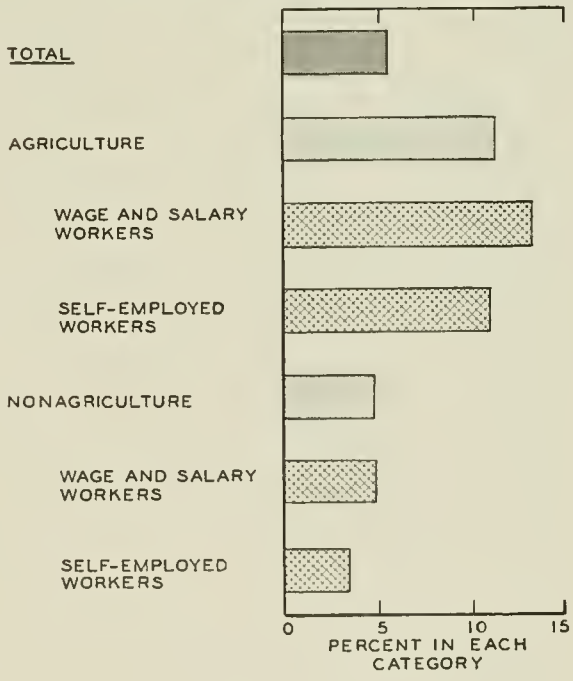
Among nonfarm wage and salary workers, 1.6 million persons held secondary jobs. Regardless of the industry type of the primary job, nearly three-fourths of these had secondary jobs in the trade and service groupings, reflecting the greater flexibility and availability of evening and weekend work in these lines.

Plastic Silos

Two models of plastic silos are now available to the farmer. One type, developed by the New Jersey Agricultural Station at Rutgers University in cooperation with the Bakelite Company, is built in layers similar to a wedding cake and covered with vinyl plastic. With an 80-ton silage capacity, the container allows gases formed by heat reaction to escape yet keeps out oxygen, according to the manufacturer.

The second silo, the VisQueen, consists of a black polyethylene film or tarpaulin which is placed over stacked silage. Burial of the ends in an 8- to 10-inch trench creates an airtight and weather-tight container that eliminates surface spoilage. Developed by researchers at Purdue University, tests indicated that temperatures were 25 to 30 degrees lower than those recorded in uncovered stack silos. Test results set the average temperature at about 98 degrees with a maximum temperature of 110 degrees. The manufacturer, Visking Company, states that this silo can be used both for primary silage storage and as temporary or emergency storage capacity. For further information, write the company's Plastics Division, Terre Haute, Indiana.

MULTIPLE JOBHOLDING BY INDUSTRY AND CLASS OF WORKER, JULY, 1956



Source: U. S. Department of Commerce, *Current Population Reports*, Series P-50, No. 74.

THE POSITION OF PAY-TV

DALLAS W. SMYTHE, Professor of Economics and Research Professor, Institute of Communications Research

Pay-TV thus far has been just an idea to which different people, moved by contrasting motives, respond in relation to their needs. For many intellectuals, who feel some resentment against the practices of advertising on TV, the notion of pay-TV has the utopian appeal that it might deliver chamber music, operas, "Broadway plays," and the like. For some businessmen and upper-income level white-collar people — who as consumers generally accept sponsored TV programs — the attraction has been that pay-TV should be tested by the free competition in the market place; if pay-TV survives this test, it is obviously the "best" sort of TV. Production personnel in the motion picture industry tend to project into the notion of pay-TV their liking for anything which potentially enlarges the market for their services. The vociferous support of sporting entrepreneurs is engaged for pay-TV quite frankly by the prospect of huge increases in their box-office take through the broadcast of major league baseball, or "championship" fights. The groups named account for most of the support enjoyed by the promoters of pay-TV.

Economic Roots of the Controversy

While their propaganda promises that pay-TV would bring all good things to all possible supporters, the promoters of pay-TV do not confuse themselves. For them the economic possibilities of the idea are attractive. They see that today about three-fourths of American homes use their TV sets for an average of about five hours a day. By the application of some simple arithmetic it is easy to estimate the volume of revenue which would be built up if pay-TV were authorized for broadcasting. Paramount's subsidiary Telemeter disclosed its estimate in 1955 that if 75 percent of TV sets were converted to pay-TV and if the average weekly payments per pay-TV user were $2.50, the total revenue of pay-TV would be about $4.5 billion by 1960.

The creation of a new industry with this volume of business would add more than one-third to the total bill paid for recreation in personal consumption expenditures by the American people. It would be an industry with a dollar volume larger than the total consumer expenditures on magazines, newspapers, books, spectator sports, and commercial participant amusements combined. Evidently, the promoters of pay-TV are eying a jackpot of epochal size. This would be the reward for replacing in part at least a "free good" with a scarce "economic good."

One group of businessmen with experience in offering entertainment to mass audiences behind a box office have watched the growth of TV with consternation. According to a study by the Stanford Research Institute, between 1946 and 1954 attendance at motion picture theaters declined 64 percent and revenues about 33 percent — for which TV was largely responsible. Coming, as it did, coincidentally with the revolution in motion picture organization and trade practices caused by antitrust action, TV produced major dislocations in the theater business. It was to be expected that motion picture theaters would oppose the threat of pay-TV promoters to compete directly with them for the viewer's box-office dollar.

Opposition to pay-TV has come primarily from the motion picture theaters and the TV broadcasters (including the networks and the largest TV set manufacturer, RCA). They, like the promoters of pay-TV, also have a direct economic stake in the issue. And like the promoters, the opponents assert that it so happens that their interests coincide with those of the American public. The great bulk of the American people whose interests would be affected by pay-TV have not been heard from directly. The issue did not enter the 1956 election campaign but several congressmen have spoken for the inarticulate majority.

It must be evident from this preliminary review that the issue is complex and that arguments pro or con are mixed with power strategies in contending for a favorable stance with respect to the public interest. It will perhaps clarify the situation if one reviews the history of the pay-TV idea, and then examines the arguments of the contestants.

Existing State of TV

Broadcasting, both by radio and by TV, with revenues coming from advertisers, has grown very rapidly. When it became apparent that a TV system was imminent, one major set manufacturer began a campaign for pay-TV, arguing that advertisers should not be expected to foot the multi-billion dollar bill which TV would present annually. Several other pay-TV promoters appeared and three sets of experiments were conducted. The results were not conclusive enough to gain FCC approval.

Considerably upsetting to the promoters of pay-TV was the fact that advertiser support was, in fact, forthcoming in sufficient quantity to make broadcast TV grow very rapidly and profitably. Total advertising expenditures on TV rose in the six years following 1949 from less than $60 million to more than $1 billion, and have continued to rise above that level. Sets in use have passed the 40 million mark and the saturation of households with sets in major population centers ranges around 90 percent.

The total number of TV stations now stands at 475. About four-fifths are VHF, and the other fifth, being UHF, are at a competitive disadvantage and are generally unprofitable. FCC allocation policy under congressional pressure has moved spasmodically and insufficiently in the direction of the more competitive and abundant allocations possible through eliminating the mixture of VHF and UHF assignments in the same community. The total effect of its policy, however, has been to protect the more limited number of highly lucrative markets for VHF stations.

Programming for TV has changed substantially since its first experimental efforts. The core of this programming has come to consist in dramatic materials ranging from western and crime types through comedy and romance to "classics" from the legitimate stage and the unique TV type illustrated by "Marty" and "A Man is Ten Feet Tall." While much of this drama is produced "live," an increasing proportion is produced on film especially for TV. In the field of sports, TV has broadcast major league baseball, the most popular college football games, boxing matches, leading horse races, and other sporting events. In the area of information and interpre-

tation of information, the Murrow "See It Now" series and the recent CBS broadcast of the interview with Krushchev are examples of TV at its best.

Proposals For Pay-TV

This is the setting in which pay-TV promoters had to work. There were, at the time of the FCC rule-making proceeding in 1955, three promoters with somewhat different systems. All three start from the same point: They take the TV program signal ready for broadcast and scramble it so that only those viewers who pay to have it unscrambled may see it; on TV sets where no payment for unscrambling is made the program as received is so altered both as to sight and sound as to be unrecognizable.

The business organization contemplated for the administration of pay-TV would revolve around the owners of patents for the devices used in coding and collection. They would license enterprises to sell or rent encoding and decoding equipment to TV stations and to the viewers. They would negotiate with the TV stations for the use of station time. They would arrange for programs to be presented by pay-TV, and conduct the advertising of programs and collection of revenues. They would produce part but distribute all of the pay-TV programs.

It is at once evident that the patents and standards are basic to an appreciation of the significance of pay-TV. If the FCC approved standards sufficiently general so that any one or more of the three systems could operate, the eligible owners probably would merge their interests or establish a geographical market separation. Thus, whether specific or general standards were established, the end result for a given community would probably be that its pay-TV programs would come to it (perhaps over several stations) from one program distributing organization associated with the patent holder.

According to the promoters, pay-TV should be conceived as supplemental to sponsored TV and as consisting of "high-quality box-office programs." Such programs were described as being "newly released feature-length motion pictures, Broadway plays and grand opera" or sporting events. Pay-TV was offered as a means to salvation for the legitimate theater, the minor league baseball team, and the community prizefight arena. It would rival conventional methods of marketing such "programs" but would be able to distribute them to larger audiences at lower prices than those charged at box offices.

The promoters forthrightly asserted that "the arithmetic of low-cost mass distribution will also apply to subscription television." As against free TV, it was argued that the costs of using TV were rising so high as to force advertisers away from the medium — thus establishing a ceiling to the size and performance of TV. It was contended that first-run feature films are inherently too expensive for advertisers on TV, and that only through pay-TV can they be brought to home audiences.

Possibly the promoters' most interesting argument was that the FCC had the statutory duty to permit pay-TV "... if it determines only that subscription television holds some promise of making a contribution to our national television system." The promoters were willing to risk their capital in the market place and to give up pay-TV if it proved unsuccessful. All they asked was a competitive chance.

The Case for the Opposition

The arguments against pay-TV ran as follows. It was contended that the public interest would be injured seriously by various consequences of pay-TV. Foremost among these was "blackout": While pay-TV is in operation, television channels dedicated to the use of the entire public would be blacked out to everyone except those willing and able to pay for the privilege of home viewing.

Another was "siphoning": So much money could be obtained from even a fraction of the normal viewing audience of any popular program that pay-TV would be able to bid away from free broadcasting any attraction that it wanted. This applied to present programs and to such additional material as free broadcasting would present in the normal course of its development unless artificially checked.

The opponents argued that pay-TV could not be an addition to sponsored TV; it could only be a substitution for it and the siphoning process would divert program talent, audiences, and economic support from sponsored to pay-TV. It was contended that pay-TV promoters ignored the rising quality of sponsored TV programming and sought to justify pay-TV on programming arguments which were illusory. The promoters' appeal to intellectuals would be unfulfilled because in practice pay-TV would program for the largest possible audience just as sponsored TV is said to do.

Perhaps the most serious criticism of present TV programming is the charge that, while a minority of programs do achieve what could be expected, the majority are far short of the goal. The shortcomings of the majority apparently are imitativeness, devotion to trite clichés of plot, dialogue, and action, and excessive stereotyping of characters. The single phrase "lack of diversity" sums up the charge. Before jumping to the conclusion that substitution of box-office for advertiser support would remedy this situation, one should consider whether these characteristics are not common to all mass audience fare, however supported. The motion picture industry provided TV with the custom of the star system, programming in cycles, formula plots, and character stereotyping. And with minor variations, the same criticism may be made of popular "box-office" fiction in magazines and books. The taste of the mass audience, as perceived by producers of mass entertainment, seems to require these characteristics when low-cost distribution in the market is the road to maximum profits.

The "bait" of "first run" movies and plays, opponents said, was decidedly misleading. With the passage of time more and more of the backlogs of existing films are being released for sponsored TV broadcasts, and the remainder would shortly be released if a denial of pay-TV convinced Hollywood that the huge jackpots promised by pay-TV were not to be forthcoming. As for the legitimate theater, if producers put their first nights on pay-TV, the shows would be fashioned technically for TV, not for the living theater. In that case all that pay-TV offered would be the same type of drama that free TV now presents, but at greater cost. Pointing out that more money will not create new playwrights, new actors, or new directors, and that free TV now engages the best quality of each of these, opponents denied that pay-TV would raise the level of taste, talent, or intelligence in drama programs.

The "bait" of sports events on pay-TV, according to CBS, would cost the viewer much more than the unit price of whatever *new* sports event he watched. For on the advent of pay-TV *all* sports events would be withdrawn from free TV and siphoned over to pay-TV. And leading sports entrepreneurs were quoted to this effect.

The opponents also argued that pay-TV would place

an unfeasible burden on low-income families which own the majority of TV sets and which according to the latest available data spent less than $90 a year on motion picture admissions. In the unlikely event that such a family paid nominal prices for as much pay-TV programming as it watched in free TV in 1955, the annual cost per family would exceed $1,100 per year. But, it was argued, any conceivable payments to pay-TV would dislocate family expenditures which currently included only about $250 a year (for wage earners) for all recreation, reading, and education.

Finally, the opponents argued that the approval of pay-TV would create a nationwide patent monopoly which would distribute all pay-TV programs and enjoy fantastic profits.

Obstacles to Broadcast Pay-TV

In the two years since 1955 the FCC has announced no decision on the merits of the issues raised. In this period there has been much activity by lobbyists and public relations men on behalf of both the promoters and opponents of broadcast pay-TV. The FCC in May, 1957, invited the parties to the proceeding to submit statements on a series of questions concerning the specifications and conditions for further trial demonstrations which might be authorized.

While this FCC action may be said to be a partial victory for the cause of broadcast pay-TV, other developments of the past several years would seem to make it more difficult for the promoters of that idea to overcome the opposition it has aroused. The resources of free TV — both in terms of program materials and revenues — have increased in the interim. The "old movies" which were the butt of criticism on TV have been displaced by films released from the backlogs of more recent productions. The vested interest of TV viewers in terms of receiver investment and habituation to free TV has been strengthened by the addition of several million additional TV homes.

Possibly of even more importance, however, are the developments in wired-TV. Advocates of wired pay-TV point out that opposition to pay-TV was solely to the proposal that it use the airwaves. Their contention was that pay-TV should use wire lines — a proposal to which no one had objected. Wired pay-TV, they said, would avoid disruption to free TV broadcasting. It would also avoid the necessity for the installation of scrambling and unscrambling devices and the disruption of the TV repair service industry. Plans were announced for demonstrations in several cities to determine public acceptance.

Test transmissions are scheduled for the summer of 1957 over a closed circuit toll TV system associated with motion picture theater interests. Franchises for wire systems are currently being sought in a number of cities including Los Angeles and San Francisco where pay-TV promoters and major league baseball teams appear to be planning to offer games on pay-TV. And one company is rumored to be negotiating with Metropolitan Life Insurance Company to install wired TV in its 35,000 apartments located in seven cities. While wired pay-TV is evidently more expensive to operate — especially in larger cities — than broadcast pay-TV, it is very possible that the demonstrated feasibility of wired pay-TV will so alter the power positions of the parties in the FCC proceeding as to defeat the possibility of broadcast pay-TV.

After the Lull Ends

(Continued from page 2)

other hand, there is practically nothing in prospect to give the economy a new upward push.

Government expenditures are still a plus factor, but their rise is slowing to the point of being dependent on price increases. The $5 billion rise in Federal spending during the past year means that two years of budgeted increase have been compressed into one. Although reduced appropriations by Congress tend to be an ineffective restraint on spending, administrative action is not equally so. The President's orders to hold the line are just beginning to take effect. Any agreement on armaments reduction will work in the same direction.

State and local spending has been pushing ahead at an annual rate of $3 billion. This is another lagging series in the cycle. It lags for two reasons: First, the needs it has to meet follow community development; it lags behind the housing boom. Second, the tax receipts available to state and local governments lag behind the retail sales and the accumulation of property on which the taxes are levied. The so-called "trend" in state and local expenditures cannot long survive an over-all business setback.

The continuing advance in government spending in the period just ahead will probably be more or less offset by the prospective decline in net foreign investment. Exports were built up to a peak rate early this year. The effects of the Suez and Hungarian crises and of surplus farm commodity sales by the government are temporary factors. Moreover, the loss of gold and dollar reserves is intolerable for many foreign countries and they will move to bring it to a halt.

The talk of continuing inflation merely confuses the issue. Industry is in no position to maintain real investment on the basis of price increases. The continuing rise in consumer prices tends to undermine real purchasing power. Moreover, most of the price increases have affected food, housing, and services; and increases concentrated in these areas undermine purchasing power for industrial products still faster. Aside from the recent steel price advance, the structure of industrial prices has tended to weaken. Competitive pricing will increase with the widening gap between capacity and sales. Many steel-consuming industries are concerned over the situation, trying to decide whether or not it will permit them to pass the increase on to their customers. There is hardly anything in the price picture to provide a continuing stimulus to business.

It is not impossible, of course, that the lull should end in a new advance. The case in favor of any large or prolonged advance is rather far-fetched. A better case can be made in favor of a sharp break within a few months, in which investment programs are not just permitted to run down but are actively curtailed. The most probable outcome is that the lull will drift into a moderate recession later this year, tending to accelerate as we move into 1958. VLB

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

Apart from seasonal developments, business activity exhibited little change in August. Employment declined seasonally, but output continued at a high level and prices and incomes rose gradually. Industrial production, which was 44 percent above the 1947-49 average in July on a seasonally adjusted basis, apparently held up well and construction activity recovered from the slight decline in July. Department store sales were 3 percent above August of last year, a slightly higher rate than the average for the first eight months of the year.

Government expenditures clearly are playing an important role in maintaining a high level of economic activity. Defense outlays are running well above the corresponding period last year and the Federal cash deficit was about $1.6 billion greater at the end of the month than at the end of August, 1956. Higher outlays by state and local governments contributed to a record volume of construction.

Construction Outlays Up, Contracts Down

August saw a new record of $4.6 billion in outlays for construction. The total for the month was 2 percent above the previous high set last August and 4 percent above the July, 1957, figure. However, the latter was held down by the impact of the cement strikes. The month's activity raised the total for the first eight months of the year to a new peak of $30.5 billion, 2 percent above the previous high established in the corresponding period last year. Building costs advanced by a greater percentage, so a decline in physical volume of construction is indicated.

Public construction has been the principal area of strength in construction activity this year, accounting for $9 billion of the total for the first eight months, an increase of 10 percent over January-August last year.

The $21.5 billion in private construction during the first eight months about equaled the 1956 record for this period. Outlays by public utilities advanced 11 percent and contributed the largest dollar gain to the private total. Office, hospital, and church construction was up, but industrial building has declined since May and private housing has been down all year.

Some advance in private housing construction is foreshadowed by the 13 percent gain over a year ago in contracts awarded during July for residential building. On the other hand, contracts for heavy engineering construction were down 18 percent from July, 1956, and nonresidential construction was off 14 percent. These diverse movements left total contract awards down 4 percent from July a year ago.

Manufacturers' Sales and Orders Rise

Sales by manufacturers in July reached a seasonally adjusted figure of $29 billion, an increase of 3 percent over June and the highest total since February. The gain was split about equally between the durable and nondurable goods sectors, although the largest relative advances occurred in primary metals, where higher steel prices helped to raise the dollar receipts.

New orders, after allowance for seasonal factors, amounted to $27.3 billion, 1 percent above the June low for the year. The gain here came to nondurable goods manufacturers. The backlog of unfilled orders on the books of all manufacturing companies declined $1 billion, leaving the total at $59.4 billion at the end of July. Outstanding orders were then $3 billion below a year ago.

Inventory book values of manufacturers on a seasonally adjusted basis rose $300 million above June to $54.1 billion, $4 billion above July, 1956. All of the increase came in durable goods, with transportation equipment accounting for half of it.

Business Spending Down

The Department of Commerce reduced its estimate of spending by industry for new plant and equipment during the third quarter from an annual rate of $37.9 billion to $37.2 billion. It predicted that the rate would continue at the same level in the fourth quarter. The report also revised downward the second quarter annual rate by $300 million to $37 billion. The revised estimate for the year as a whole is $37 billion, which would represent a gain over the 1956 record outlays of 6 percent, far below the 22.5 percent advance from 1955 to 1956.

Utilities are now expected to exceed their 1956 spending by 28 percent and railroads by 18 percent, whereas commercial firms will reduce their outlays 8 percent. It is estimated that manufacturers will increase their spending by 8 percent over 1956. A 30 percent decline from 1956 outlays by the motor vehicle and equipment group, according to the present estimate, will be more than offset by an increase of more than 100 percent in spending by the nonferrous metals industry and somewhat smaller increases by the primary iron and steel and nonautomotive equipment and machinery groups.

THE STABILITY OF CONSUMER EXPENDITURES · · By J. D. Phillips · · Page 8

ILLINOIS BUSINESS REVIEW

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Easy Come, Easy Go

A New York newspaper recently purchased by the author carried a full-page advertisement of strawberries. The picture of the fruit was printed in red, under the caption. "You can actually *smell* the strawberries on this page. Try it!" Sure enough, the fragrance was strong, even without bringing the paper close to the nose.

This is mentioned merely as an illustration of a growing complex of devices intended to entice the consumer to spend. They result from the concerted efforts of rapidly expanding staffs of salesmen, advertisers, market researchers, innovators, designers, psychologists, and consumer motivators. If a product is not desired for itself (at its price, of course), it is put into a package that will sell it anyway. Industry is sparing no expense in trying for a "revolution in selling." Some insist that the future depends on it.

Emphasis on Expanding the Market

During recent years there has been a steady expansion in marketing, special services, research, and other nonproduction activities. This is clearly reflected in the employment data. From 1953 to July, 1957, total nonagricultural employment increased by 3 million but manufacturing employment decreased by almost half a million. Within manufacturing, a decline of 1 million in the number of production workers was partially offset by a half million increase in other employees.

Part of this shift is undoubtedly due to the improvement in productive efficiency. Enlarged output is being obtained from highly mechanized and automated plants that require fewer workers. This concentrated output has to be transported, sold, and in large part adjusted and maintained. Hence, the proportion of effort expended in distribution and service rises. The economic processes involved have to be adapted to each other in order that the goods may be moved to consumers.

Considering the situation as a whole, however, it seems reasonable to conclude that certain kinds of marketing, designing, and research activities have been expanded beyond actual needs. A goodly part of business expenditures in these categories appears to be marginal, unnecessary, or even wasteful. To the extent that this is true, the shift represents a boom phenomenon and probably cannot long outlast the present high prosperity.

One may wonder why able, sober businessmen tolerate the expansion of dubious distribution and service costs. The hard-hitting executive who pounds the desk to force the engineers to whack another nickel off of unit production costs may authorize without blinking the expenditure of a dollar per unit for a single advertisement; and he may budget millions in development expense, without prospect of direct return, in the hope of hitting on something new or getting a toe-hold in the other fellow's business.

Part of the answer lies, of course, in the availability of funds to finance such activities. The flow of receipts to be divided between profits and costs is large enough to afford a great deal of latitude for decision. Moreover, half of what is put into additional costs comes out of taxes rather than funds available for other corporate use. The circumstances offer unprecedented leeway for experimentation, for new ventures, and for efforts to gain competitive advantage.

The availability of funds does not tell the whole story, however. Partly it is a question of control versus uncertainty. Production is typically better subject to control than sales. In the course of the boom, the disparity increases steadily with the progress of investment in new plant and equipment. Toward the end, a situation is reached in which industry is capable of producing just about everything the market could possibly take, but doubts steadily mount as to the possibility of selling everything industry can produce. An attractive idea at that point arises from the hope that the control achieved in production can be extended to distributive operations. Desperation induces some concerns to embrace anything that offers a prospect for higher sales. Competitive pressures drive others toward adoption of similar practices. Emulation and luxury spending seem to dominate business efforts to eliminate the uncertainties of the market.

No Guarantee of Stability

Spending for luxuries and frills is by no means confined to business. The fact that consumers, too, are in a free-spending mood — and are willing to borrow to spend more — lends credibility to the success of selling efforts. Not since the roaring twenties has there been such a splurge in pleasure boats, marinas to accommodate them, Fifth Avenue penthouses, and other apartments for millionaires. Many consumers, even the less opulent, are venturesome enough to "try anything once." Seemingly, they invite the most cynical practices of the hucksters.

Despite the appearance of profligacy, however, the excess of expenditures over what might be considered normal for the current level of income is not of large proportions. It appears to be not far from the recent rate of consumer credit expansion, perhaps amounting to as much as 1 percent of disposable personal income.

Viewed in long-term perspective, such outlays appear to be transitory in character. The evidence offers no firm support for notions that the excitement of the boom or the expansion of marketing activities can produce any sustained change in the allocation of consumer resources between spending and saving.

Marketing and other distributive activities do contribute to consumption indirectly, of course, through the income they generate. This contribution is certainly significant and it perhaps represents the basis on which some analysts assert that the shift of employment away from production will tend to stabilize the economy. Since

(Continued on page 6)

THE NEWSPAPER INDUSTRY

America's first newspaper appeared in 1704, a half century after the first printing press was established at Harvard College. Although a number of newspapers appeared in the eighteenth century, papers did not flourish until after 1830, when technological and other advances ushered in the era of mass circulation.

Wide circulations were fostered by the invention of the cylinder press in 1825, the development of the paper "web" in 1830, the emergence of the "penny press" in 1833, and the appearance of syndication in 1841. The post-Civil War period saw an even greater exploitation of these developments in addition to the use of the telegraph, the inception of the press services, and the invention of the linotype for faster preparation of copy.

The Press Today

Newspaper publishing today is a highly complex and expensive process. Unlike the magazines, which may contract for printing services, newspapers find it necessary to own production plants that require costly capital expenditures. In contrast to the eighteenth and nineteenth centuries, when a press and a few fonts of type were the only prerequisites, the establishment of a modern daily newspaper in a small city requires a capital outlay of at least half a million dollars. For this reason, newspapers, except in the small weekly field, have become big business. This change was most noticeable about the turn of the century when many smaller newspapers found themselves unable to meet the costs of modern technology and the marketing shift from subscriber to advertising revenue. They succumbed through mergers, consolidations, or bankruptcy. By 1939, three-fourths of all daily newspapers were incorporated and only a sixth remained the sole proprietorships so characteristic of the late nineteenth century.

Today circulation and advertising revenues are near an all-time high. In 1956, the nation's 1,761 daily newspapers circulated more than 57 million copies; this was an increase of 3.8 million copies since 1947, despite the decline of 103 dailies in that period. The industry received $3.3 billion dollars in advertising revenues in 1956, an increase of nearly $1.3 billion from 1950. One-fourth of the total ($805 million) came from national advertisers, who increased expenditures to newspapers by one-half. Local advertising jumped nearly 78 percent in the same six years to $2.5 billion. The impact of television, so debilitating to radio, reduced the newspapers' share of total advertising less than 3 percent between 1950 and 1956. Thus, the newspaper industry remained the major advertising outlet, commanding more than one-third of total advertising expenditures for all mass media in 1956.

In contrast to the dominant big businesses in the daily field are the weekly newspapers. Primarily an American phenomenon, they have suffered pains similar to those of the small dailies of an earlier period. Reaching their numerical peak in 1914 when more than 13,000 were published, they have experienced a growing mortality rate, with consolidations and mergers resulting from rising operating costs and increasing difficulties in making profits. Last year, only 6,200 remained, a fifth less than the 7,700 in 1947. In the face of their shrinking numbers, weeklies boosted circulation from 21 million in 1947 to more than 30 million in 1956. However, the weeklies' gains in circulation have been offset by higher costs. Small lot purchases and the greater impact of overhead costs make them especially vulnerable. Weeklies are also often harassed by production inefficiency resulting from obsolete equipment and inexperienced personnel.

Illinois — A Newspaper State

The first newspaper in Illinois was the *Illinois Herald* established in 1814 at the former state capital of Kaskaskia. Today the State ranks second in the nation for total weekly, daily, and Sunday circulation with more than 13 million, an increase of 3 million since 1947.

The State's 10 morning dailies have an average circulation of 155,000 each; the 87 evening papers average 27,000 copies daily. The largest publications, all located in Chicago, have the following daily circulations: *Tribune*, 907,570; *Daily News*, 595,070; *Sun-Times*, 547,700; and *Herald-American*, 524,650.

While Illinois has a number of large city dailies, it is also known for its numerous weeklies. With 380 weekly establishments, the second highest number in the nation, the State boasts the largest weekly circulation in the United States. In 1947 these weeklies produced 2.3 million copies each week and by 1956 this total had risen to nearly 6 million, approximately one-fifth of the national total.

Nearly 100 of the State's 500 weekly and daily plants hire 20 or more employees. There are nearly 20,000 newspaper employees in the State including more than 10,000 production workers. In 1947, Illinois had 16,700 employees in the newspaper industry.

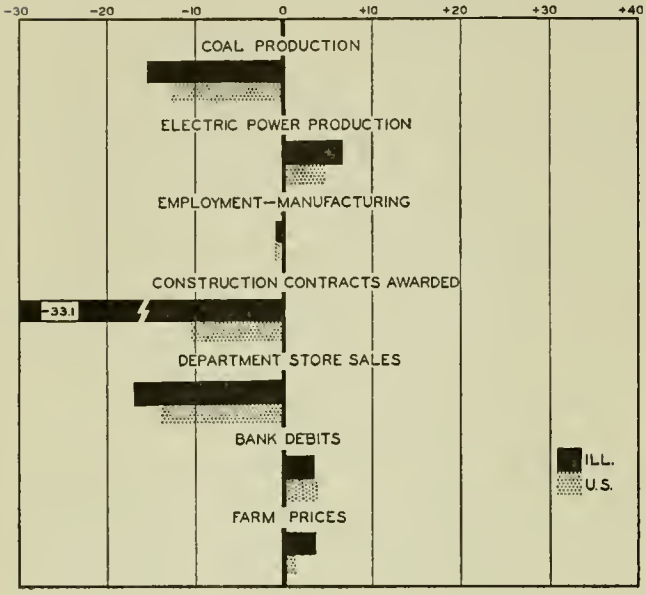
Advertisers bought more newspaper space in Illinois papers in 1954 than in those of any other state except New York. Receipts from advertising ($146 million) were more than twice the receipts from subscriptions and miscellaneous sales. The value added by manufacture for the State's daily and weekly plants averaged $288,000 in 1954, whereas the national average was $198,000. The same year, capital outlays for new equipment averaged nearly $11,000 for each of the State's establishments.

Mounting costs represent the most serious problem to small newspapers, weekly and daily. Although some advances have been made in cost-cutting equipment, such as engraving and automatic typesetting mechanisms, expensive processes are tending to smother smaller papers, and high capital requirements are discouraging new ones from entering the field. The small publisher, especially, is being squeezed, since he lacks circulation to draw higher-priced national advertising lineage and cannot gain the volume necessary to low operating costs.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1957, to July, 1957



ILLINOIS BUSINESS INDEXES

Item	July 1957 (1947-49 =100)	Percentage change from June 1957	Percentage change from July 1956
Electric power[1]	222.4	+ 6.6	+10.4
Coal production[2]	59.4	−15.5	− 4.4
Employment—manufacturing[3]	104.9	− 0.9	− 0.3
Weekly earnings—manufacturing[3]	155.2[a]	+ 1.2	+ 4.0
Dept. store sales in Chicago[4]	123.0[b]	+ 1.7	+ 5.1
Consumer prices in Chicago[5]	124.1	+ 1.0	+ 3.0
Construction contracts awarded[6]	267.3	−33.1	n.a.
Bank debits[7]	187.4	+ 3.3	+ 9.1
Farm prices[8]	85.0	+ 3.7	+ 6.2
Life insurance sales (ordinary)[9]	275.8	+ 5.2	+26.0
Petroleum production[10]	90.0	−13.4	−29.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] June data; comparisons relate to May, 1957, and June, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1957	Percentage change from June 1957	Percentage change from July 1956
	Annual rate in billion $		
Personal income[1]	345.5[a]	+ 0.2	+ 6.1
Manufacturing[1]			
Sales	348.0[a]	+ 3.2	+ 8.2
Inventories	54.1[a,b]	+ 0.4	+ 8.2
New construction activity[1]			
Private residential	18.7	+ 2.0	− 7.0
Private nonresidential	17.9	+ 0.9	+ 4.0
Total public	16.3	+ 1.0	+ 3.3
Foreign trade[1]			
Merchandise exports	21.4[c]	− 1.7	+ 5.0
Merchandise imports	11.8[c]	−11.0	− 5.0
Excess of exports	9.6[c]	+12.7	+20.6
Consumer credit outstanding[2]			
Total credit	42.4[b]	+ 0.3	+ 7.3
Installment credit	32.7[b]	+ 1.1	+ 7.9
Business loans[2]	31.7[b]	− 2.4	+10.5
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	144[a]	0.0	+ 5.9
Durable manufactures	162[a]	0.0	+ 9.5
Nondurable manufactures	130[a]	0.0	+ 1.6
Minerals	127[a]	− 1.6	+ 3.3
Manufacturing employment[4]			
Production workers	105	− 0.7	+ 1.8
Factory worker earnings[4]			
Average hours worked	100	− 0.2	− 0.5
Average hourly earnings	156	+ 0.5	+ 6.1
Average weekly earnings	157	+ 0.2	+ 5.6
Construction contracts awarded[5]	320	−10.5	− 4.0
Department store sales[2]	132[a]	+ 3.9	+ 2.3
Consumer price index[4]	121	+ 0.5	+ 3.2
Wholesale prices[4]			
All commodities	118	+ 0.6	+ 3.6
Farm products	93	+ 2.0	+ 3.0
Foods	107	+ 1.0	+ 4.9
Other	126	+ 0.3	+ 3.5
Farm prices[3]			
Received by farmers	91	+ 1.1	+ 1.1
Paid by farmers	118	0.0	+ 2.6
Parity ratio	84[d]	+ 2.4	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for June, 1957; comparisons relate to May, 1957, and June, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Aug. 24	Aug. 17	Aug. 10	Aug. 3	July 27	Aug. 25
Production:						
Bituminous coal (daily avg.)....thous. of short tons..	1,647	1,600	1,603	1,625	1,668	1,638
Electric power by utilities....mil. of kw-hr....	12,023	12,409	12,070	12,474	12,243	11,340
Motor vehicles (Wards)....number in thous....	145	138	137	140	142	89
Petroleum (daily avg.)....thous. bbl....	6,789	6,837	6,797	6,843	6,922	7,127
Steel....1947-49=100....	122	120	119	118	118	137
Freight carloadings....thous. of cars....	759	751	740	741	736	770
Department store sales....1947-49=100....	121	115	110	104	101	120
Commodity prices, wholesale:						
All commodities....1947-49=100....	118.0	118.1	118.1	117.9	118.0	114.7[a]
Other than farm products and foods..1947-49=100....	125.7	125.6	125.6	125.5	125.5	122.5[a]
22 commodities....1947-49=100....	88.8	89.7	90.2	90.2	90.0	90.9
Finance:						
Business loans....mil. of dol....	32,217	31,958	31,742	31,738	31,783	29,182
Failures, industrial and commercial...number....	260	222	265	281	228	215

Source: *Survey of Current Business, Weekly Supplements.*
[a] Monthly index for August, 1956.

RECENT ECONOMIC CHANGES

Security Offerings Continue High

New corporate security offerings fell slightly during the second quarter of 1957 from the record set in the previous three months, but continued to run ahead of the corresponding 1956 period. Corporations offered $3.3 billion during the quarter compared with $3.6 billion in the previous quarter of 1957 and $3.0 billion in the second quarter of 1956. The volume of new offerings in the second quarter of this year thus brought the total for the first half to a record level of $6.9 billion, $1.7 billion higher than the first half of 1956.

The only industry showing a substantial rise in financing during the quarter was the gas and electric utilities. This reflected the expanded capital expenditure programs of the utilities and their practice of financing such programs through new security issues. Public utilities issues, with an increase of about $140 million over the previous quarter, amounted to $1.2 billion or 35 percent of all offerings. Manufacturing issues, on the other hand, fell by $200 million from the $1.3 billion of the preceding quarter but still accounted for 34 percent of the total.

The need for new money to be used for plant and equipment expenditures and for increased working capital continued to be the chief inducement for firms to go into the capital markets. Securities offered for new money purposes totaled about $3 billion in the second quarter of this year. This compares with offerings of $3.2 billion in the first quarter of 1957 and $2.6 billion in the second quarter of 1956.

Income by States

Personal income in the United States rose 7 percent last year to $324 billion. In all but a few states, both total personal income and per capita income were at record highs. No state registered a decline in personal income in 1956, and Nevada, falling 2 percent below the 1955 figure, was the only state to suffer a decline in per capita income. Changes in personal income ranged from an increase of 14 percent in Delaware to virtually no change in Mississippi, with advances in two-thirds of the states and with all regions falling within 2 percent of the national average.

Regionally the largest gains in personal income were in the Far West and Rocky Mountain areas. New England, the Midwest, Southeast, and Southwest equaled the 7 percent national average. Only the Plains and Great Lakes regions fell below the national average with increases of 5 percent and 6 percent, respectively.

Florida, Arizona, and Delaware continued their consistent advances with sizable gains in all major income sources. Through the past decade these three states have consistently ranked among the half dozen with the largest annual rises in personal income. A continuation of the 1955 upturn in West Virginia's important coal mining industry contributed greatly to that state's 11 percent increase.

Per capita income for the United States rose 5 percent from a 1955 figure of $1,846 to $1,940 in 1956. Regional advances were within the narrow range of 4 to 6 percent with New England and the Mideast reaching the latter figure.

The $2,858 per capita income recorded by Delaware was the highest among the states. Mississippi, at the bottom of the list, had a per capita income of only $964 in 1956. Following Delaware in the top rank were Connecticut, New Jersey, California, Nevada, New York, Illinois, and the District of Columbia, all with per capita incomes over $2,350. At the other end of the scale — with incomes per person under $1,300 — were North and South Carolina, Alabama, Arkansas, and Mississippi.

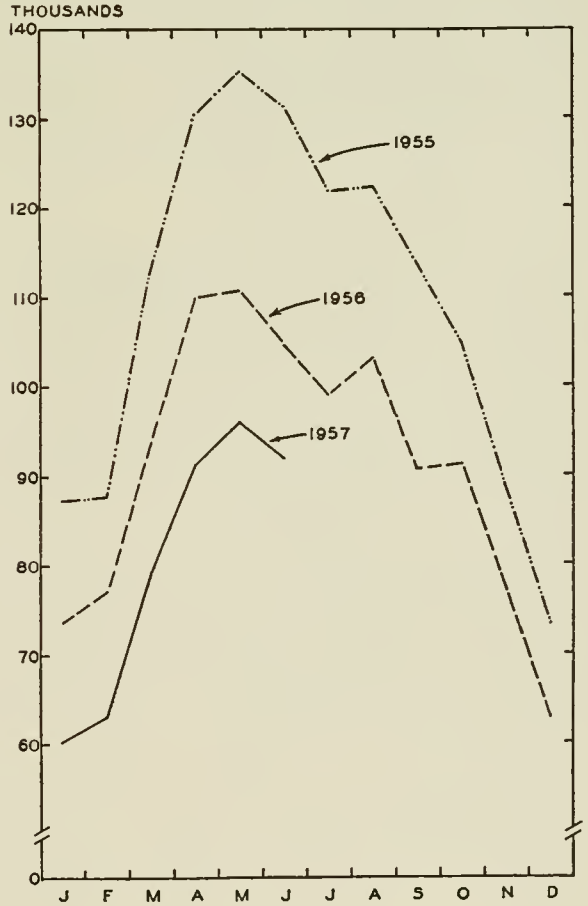
Nonfarm Housing Starts

The number of private nonfarm houses started in July was 9 percent less than in July, 1956, and the lowest figure for that month since 1951. However, the 90,200 units begun in July represented approximately the same seasonally adjusted annual rate as that of the previous two months, 980,000, which was the highest this year. The average rate for the first seven months thus moved up to about 960,000.

For the year through July, new starts totaled 572,100 units, off 14 percent from the corresponding 1956 period, far below the first seven months of 1955, and the lowest for the period since 1949. The entire drop from the first seven months of 1956 to the same period of 1957 was in government-assisted (FHA and VA) private housing. The volume of conventionally financed units in 1957 ran a little ahead of 1956 by the end of the first seven months.

Although total housing volume in July was about 1,800 less than June, preliminary information based on building-permit reports indicate an increase in the South. The largest decline was in the West where major work stoppages occurred throughout the month. Preliminary

NONFARM HOUSING STARTS



Source: Bureau of Labor Statistics.

reports also show that although the number of single-family units continues to fall, apartment construction is increasing. Indications for the first six months are that almost 15 percent of the nonfarm dwelling units were in multi-family, rental-type buildings, compared with about 11 percent in the previous three years.

Foreign Earnings Reach $3.4 Billion

Private United States investments abroad earned about 10 percent more in 1956 than in the previous year. From $3.1 billion in 1955, earnings rose to a record $3.4 billion in 1956. In addition, the Department of Commerce estimates that earnings for the first half of this year were running 5 to 10 percent above the 1956 rate.

Direct investments by business concerns accounted for $3.1 billion of the total for 1956 with a gain of about $325 million over 1955. Profits of foreign subsidiaries retained abroad, an important source of financing for additional foreign investments, accounted for nearly $1 billion of the 1956 total and about $100 million of the increase over 1955.

The largest advance in 1956 was made by petroleum companies, which showed a sharp rise of about 14 percent. Although the Suez crisis held earnings in the Middle East to about the same as in 1955, increases in Canada, Western Europe, and Venezuela brought last year's earnings to $1.4 billion.

A more moderate 4 percent gain was experienced by United States owned manufacturing enterprises, which earned about $860 million in 1956. Holdings in Canada accounted for most of the advance in manufacturing. In most other countries 1956 figures did not exceed the 1955 amounts, and in some cases, notably the United Kingdom, earnings in 1956 were considerably below 1955.

The record earnings realized in 1956 reflected a new high in American private foreign investments for that year. Last year investments rose nearly $4 billion to a total of $33 billion. The Department of Commerce reports that a similar rate of increase is being maintained in 1957.

Employment Down

Employment fell by 800,000 in August, The decrease, considerably greater than is normal for the season, is attributable to an especially sharp drop in the agricultural work force, which more than offset a small pickup in nonfarm jobs. The latest joint report by the Commerce and Labor departments put August employment at 66.4 million. Last month's decline followed one of the largest increases on record for July in which the number of jobholders reached a record level of 67.2 million. The August figure was also lower than the year-earlier level of 66.8 million.

Largely because of a shrinkage of the labor force, brought about by the withdrawal of students and other temporary workers from the market, the reduction in employment did not produce a corresponding increase in the number of unemployed. On the contrary, unemployment also declined in August. The number of persons out of jobs and seeking work fell from 3 million in July to 2.6 million last month.

The contraction in agricultural employment was unusually severe for this time of year. Although the farm work force normally slips in August prior to the fall harvest, this year's decline, nearly 1 million, seems to have been accentuated by the abnormally high level maintained in July.

The usual late summer expansion in food processing, apparel, and several other manufacturing industries accounted for the advance of 113,000 in nonfarm employment during the month. This is considered a rather moderate gain in comparison with that of most recent years.

Census data in thousands of workers are as follows:

	Aug. 1957	*July 1957*	*Aug. 1956*
Civilian labor force	68,994	70,228	68,947
Employment	66,385	67,221	66,752
Agricultural	6,823	7,772	7,265
Nonagricultural	59,562	59,449	59,487
Unemployment	2,609	3,007	2,195

Farm Assets Rise

On January 1, 1957, farm assets reached a new peak of $176.8 billion, about 5 percent more than a year earlier. Financial assets, automobiles, and household goods owned by farmers as well as all assets used directly in farm production are included in the total. The increase of $8.6 billion was the largest since 1951 and reflects principally an advance of about $6.8 billion, or nearly 7 percent, in the value of farm real estate. In most states agricultural real estate values rose 5 to 10 percent, with values in Florida going up by 17 percent. But in Iowa and a number of Mountain and Plains states, drought or shortages of water for irrigation held increases down and in some cases precipitated declines.

The value of other farm assets also grew during the year. Physical assets other than real estate rose about $1.5 billion, or 3 percent, and financial assets owned by farmers went up about $300 million. At the same time that farm assets were reaching a new high, however, farm debt was also rising, but not as rapidly. During 1956 this debt grew to a total of $19.5 billion, about 3.1 percent greater than in 1955.

Easy Come, Easy Go

(Continued from page 2)

marketing is not directly tied to production, it is conceivable that such activity could remain high when production declines. But this is hardly a tenable position. Business operations still have an essential unity. Although distribution may expand in relation to production for a time, the relation between the two is definite and inescapable. If demand for output falls off, distribution must go down with production after a few months' lag.

In one respect the situation is worse when luxury spending by business and consumers is high. There is always the possibility that retrenchment will eliminate the frills and wastefulness. In the field of business services, the contraction of effort could mean that jobs evaporate completely — like the fragrance of strawberries from the newspaper advertisement. In the consumer field, this is somewhat less likely, since there are greater opportunities for converting jobs from remunerative employment to concealed unemployment, but the over-all effect on income would not be very far different from complete evaporation. There can be no guarantee of stability in the kind of expenditures that are characteristic of the boom's peak.

To the extent that the future is dependent on ballyhoo and excitement, it is insecure indeed. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Booming Cities

The rapid growth of metropolitan areas in the United States during the past half century has been one of the most significant developments in our culture. Between 1900 and 1956 the proportion of the total population living in metropolitan areas nearly doubled (from 32 to 59 percent). In these areas the suburbs have grown at a much faster rate than the central cities in recent years.

In order to provide some measure of the central city-suburban distribution of residential, service, institutional, and new business structures, the Bureau of Labor Statistics (in the *Monthly Labor Review*, June, 1957) has utilized the relatively recent series on metropolitan area building activity. For the years 1954-56, these data show significant concentrations of institutional structures (predominantly hospitals), new office buildings, and commercial (parking) garages in the central cities. This concentration indicates the continued importance of the major metropolitan city as a service center, with particular emphasis on administrative, clerical, and professional functions.

On the other hand, the suburban areas dominated construction activity in both housing and industry. About 70 percent of the number and value of dwelling units, and almost that much of the number and value of industrial structures, were scheduled for construction in the suburbs during 1954-56.

Future Files

A motorized elevator file is one of the recent products of Diebold, Inc., of Canton, Ohio. The record breakdowns in each tray of records are indexed and have individual push buttons. In addition to eliminating the stooping and pulling of filing, this system makes the specific tray available for use in a matter of seconds. Requiring about 23 square feet of floor space, the Diebold "63" Super Elevator File houses more than two hundred thousand 3- by 5-inch cards. A smaller model of the Diebold "63," requiring less than 17 square feet of floor space, is also available.

A file exclusively for punched paper tapes, the VISIsleeve, is being produced by VISIrecord, Inc., of Copiague, Long Island, New York. VISIsleeves are rigid transparent plastic containers that are arranged side by side in panels that are 24 or 30 inches wide. The panels then fit into regular VISIrecord housing units. Each sleeve has space for one 75-foot tape of any channel width, and nearly 2,900 tapes are available almost instantly to the operator.

Employee Compensation in 1956

Compensation of employees in all industries reached an all-time high of $241 billion in 1956. This peak figure, which included wages, salaries, and supplements, was a gain of more than 8 percent over the previous high in 1955.

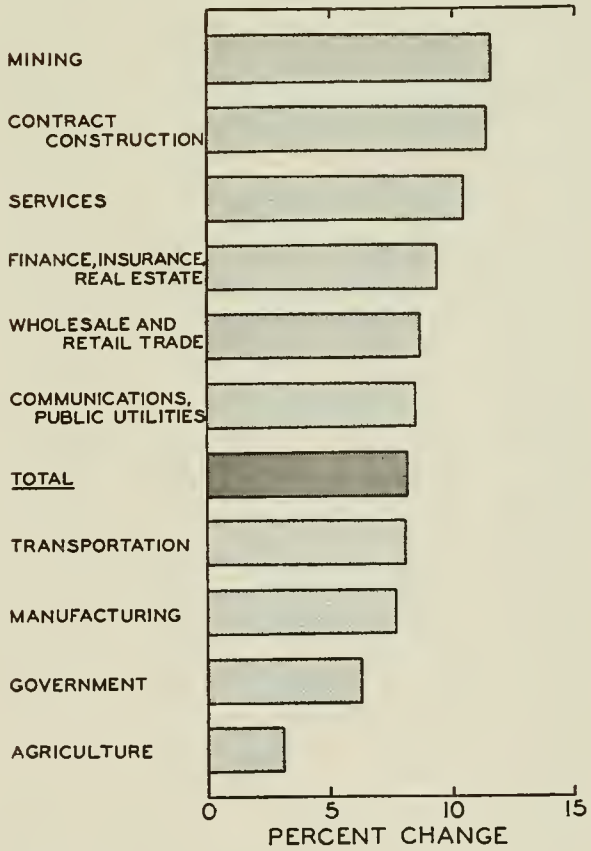
In addition to an over-all increase in employee income, each of the major industry groups recorded advances. These advances ranged from 3 percent in agriculture, forestry, and fisheries to nearly 12 percent in mining (see chart). However, these two extreme groups represented only 3 percent of total employee compensation. Wholesale and retail trade, manufacturing, and government recorded gains of 9, 8, and 6 percent respectively. These three classifications accounted for over two-thirds of the total. Manufacturing, the largest industrial group, represented one-third of the total.

Shipping Containers

A shipping container that makes it possible to combine packages of several sizes and shapes into a single unit is now available under the name Adjusta-Pak. The component parts of the container are adjustable into a final package of the desired length, width, and height by overlapping the corner sections and securing them with flat steel strapping. For further information, contact the Signode Steel Strapping Company, 2600 North Western Avenue, Chicago 47.

A combined shipping and storage bin, the Deltainer, has been announced by Delta Tank Manufacturing Company, Baton Rouge, Louisiana, and the Chemical Divisions of Food Machinery and Chemical Corporation. Used primarily for powdered or granular materials, this portable steel bin can be shipped on specially designed freight cars or by truck; used in this way it is considered as part of the carrying vehicle, thus eliminating freight charges on the bin. At their destination, the containers can be demounted and transported by overhead cranes, fork lift trucks, or conventional pallet trucks.

CHANGE IN TOTAL EMPLOYEE COMPENSATION, 1955 TO 1956



Source: *Survey of Current Business*, July, 1957.

THE STABILITY OF CONSUMER EXPENDITURES

JOSEPH D. PHILLIPS, Research Associate Professor

Recent signs of weakness evident in measures of industrial production have not been reflected in consumption. Consumer expenditures for commodities and services have continued to rise throughout the lull. In the second quarter of this year personal consumption expenditures amounted to a seasonally adjusted annual rate of $278.9 billion, $2.2 billion more than the first quarter rate and $13.9 billion more than the rate for the second quarter of last year. The gain for the year ending with the second quarter of 1957 was equal to 5 percent, as it was for the preceding year.

Retail trade data indicate that consumer purchases continued to increase in July and August. Retail sales amounted to $16.9 billion in July on a seasonally adjusted basis. This was 1 percent above June and 7 percent above July a year ago. Department store sales, which for some time have failed to increase as rapidly as total retail sales, were up 3 percent in August from the corresponding period last year.

The Pattern of Consumer Purchases

In recent years annual personal consumption expenditures have constituted a nearly constant proportion of disposable personal income. From 1951 to 1956 the proportion stayed between 92 and 93 percent, except in 1955 when the heavy outlay for automobiles of that year carried it to the high for this period of 94.6 percent. (See Table 1.) Percentages based on quarterly estimates (seasonally adjusted) have fluctuated over a slightly wider range, but the proportion has held close to 93 percent during the first two quarters of 1957.

Personal consumption expenditures have been somewhat more stable in recent quarters than has disposable personal income. (See chart.) Although consumption and income increased in each successive quarter during 1956 and 1957, their rates of advance have differed; that of income has tended to decline irregularly, while that of consumer expenditures increased gradually until the second quarter of 1957.

The postwar rise in the proportion of disposable personal income spent for services and the corresponding decline in the share going for goods continued in 1956 and the first two quarters of 1957. This shift has tended to restore these two major categories of consumer expenditures to the relative positions they held before World War II.

TABLE 1. PERSONAL CONSUMPTION EXPENDITURES AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME

Years	Total goods and services	Total goods	Durable goods	Non-durable goods	Services
1952	92.0	60.1	11.2	48.9	31.8
1953	92.1	59.5	11.9	47.6	32.6
1954	93.0	58.9	11.5	47.4	34.0
1955	94.2	59.8	13.2	46.6	34.3
1956	93.0	58.2	11.8	46.4	34.8
Quarters					
1956: I	94.0	59.2	12.4	46.8	34.8
II	92.7	58.1	11.7	46.4	34.6
III	93.0	58.0	11.4	46.5	35.0
IV	92.6	57.9	11.8	46.0	34.8
1957: I	93.6	58.6	12.1	46.5	35.0
II	93.1	58.1	11.7	46.4	35.0

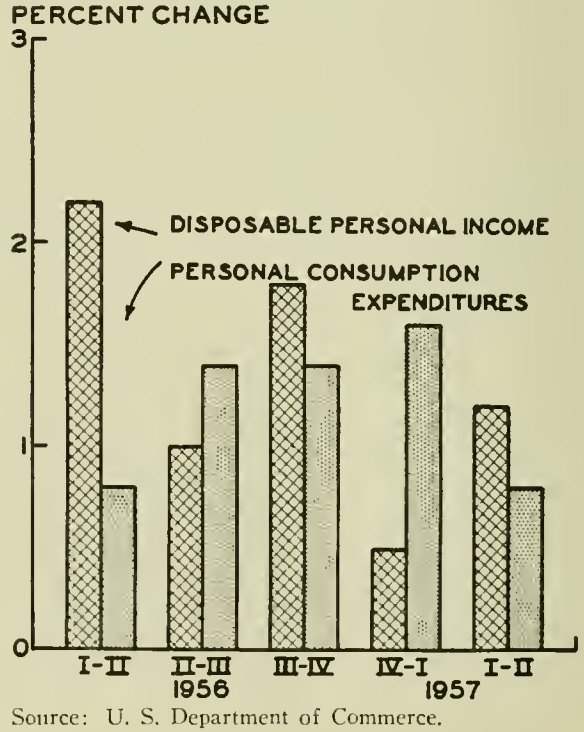
The decline in the share of goods has been confined entirely to nondurables. The latter fell from 48.9 percent of disposable personal income in 1952 to 46.4 percent in 1956, whereas durables held between 11 and 12 percent, except in 1955. The pattern remained essentially the same in the first half of 1957.

The fall in the share of nondurables in the last five years reflected a loss of about one percentage point each in the shares of clothing and shoes and of food and beverages. On the other hand, gasoline and oil increased their "cut" of consumers' income. The relative importance of other nondurables declined moderately. Among durables the variation was almost entirely the result of fluctuation in the share of automobiles and parts. The increased share of services was the consequence of a rise in the proportion of income going for personal services (chiefly medical and dental) and recreation and a smaller increase in the share spent on household operations. The relative position of housing expenditures has remained about the same since 1954, whereas that of transportation services has declined slightly.

The Role of Price Movements

Much of the recent growth in consumer expenditures is a reflection of price increases. Over the year ending with the second quarter of 1957, prices advanced about two-thirds as rapidly as did expenditures, thus bringing the 5 percent gain in the latter down to 1.6 percent in real terms. Between the first and second quarters of this year the consumer price index rose a little more rapidly than did consumer expenditures, so the physical volume of consumer purchases actually declined slightly in this period. Put in these terms, the movement of consumer

CHANGES IN INCOME AND CONSUMER EXPENDITURES, SUCCESSIVE QUARTERS, 1956-57



Source: U. S. Department of Commerce.

TABLE 2. PERSONAL CONSUMPTION EXPENDITURES AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME, BASED ON CONSTANT (1947) DOLLARS

Year	Total goods	Durable goods	Non-durable goods	Services
1952	61.3	11.6	49.7	30.6
1953	61.7	12.5	49.2	30.5
1954	61.6	12.4	49.2	31.3
1955	63.0	14.1	48.9	31.2
1956	61.7	12.8	48.9	31.4

expenditures has not differed so greatly from that of industrial production.

Prices have also played an important part in the shifting patterns of consumption expenditures. Table 2 indicates, for example, that the percentage of real disposable personal income spent on services has held close to 31 in the last five years, although the percentage based on current dollars has risen from 32 to 35, reflecting the greater rise in the price of services as compared with goods. In real terms the pattern of expenditures changed very little. Only in 1955 was there a significant shift not due largely to differential price movements.

Use of Consumer Credit Continues

Consumers often purchase durable goods, and sometimes even nondurables and services, by drawing upon liquid assets accumulated out of past income or by borrowing in one form or another. The growing use of consumer credit has been one of the factors contributing to the long-continued increase in personal consumption expenditures. With the current outstanding volume in excess of $42 billion, the total has more than doubled since 1949. Most of the growth has occurred in installment credit, which now constitutes about three-fourths of all consumer credit. Nearly half of all spending units owed some installment debt in the first part of this year.

Of course, a large volume of credit entails large repayments. Last year, these amounted to $37 billion on installment debt alone, more than the total of such debt outstanding at the end of the year and more than double the amount of repayments in 1949. Only to the extent that extensions of credit exceed repayments is the volume of purchasing power increased from this source. During 1955 over $6 billion was added, contributing significantly to the sharp expansion in expenditures on durables in that year. But in 1956 the increase was little more than half this amount.

In each month of this year there was an increase in total consumer credit outstanding, after seasonal adjustment. By the end of July the total was $2.9 billion above that at the corresponding time last year. Installment credit made gains in each month of the year through July, when allowance is made for seasonal factors. By the end of July this form of credit amounted to $32.7 billion, an increase of $2.4 billion over the year-earlier figure. Automobile paper, which makes up nearly half of all installment debt, accounted for nearly $900 million of the addition to this type of debt in that period.

While consumers as a whole have been adding to their short-term debt, they have also been increasing their holdings of financial assets. (Those who have been adding to their asset holdings are not, for the most part, the people who have been borrowing for consumption purposes, but it is the totals that are of interest here.) The growth of these assets has been the result of the large volume of personal savings during recent years. The complement of the percentage of disposable income spent on consumption shown in Table 1 is the percentage of disposable income saved. Consumers have saved a fairly constant proportion of the growing volume of disposable income in the last five years. Only in 1955 did the share of savings fall outside the range of 7 to 8 percent and then it went down only to 5.8 percent. The stability of consumer expenditures as a percentage of disposable income has as its corollary the stability of personal savings.

As a result of this saving activity, about three-fourths of all spending units had some liquid assets in the early part of this year. The total volume of these assets in the hands of consumers has risen year by year, as has that of all financial assets. Consumers certainly have more assets than ever before that could be converted readily into the means of making purchases of goods and services. However, the ratio of net financial assets to expenditures is much lower than it was in the early postwar years. A smaller margin is available to cover the current volume of consumer expenditures.

Consumer Expectations

Consumer spending on durable goods, which often can be postponed without great sacrifice by consumers, is influenced in some degree by expectations of consumers with respect to their future incomes and prices. Some indication of consumer anticipations in regard to these is provided by two recent surveys. The Survey of Consumer Finances, conducted in January and February, 1957, by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan, indicated that consumers, with higher incomes and greater liquid assets, continued optimistic about the future and planned to maintain about the same level of major expenditures as in 1956. About 40 percent of all spending units expected further increases in their incomes in 1957, a slightly larger proportion than 1956. Slight increases over 1956 in the proportions of consumers with plans to buy new and used automobiles, furniture and appliances, and home improvements offset a small decrease in the percentage planning to buy houses.

However, the privately financed survey conducted by the Center in May and June suggested that consumer confidence had declined in the interim. Although about the same proportions of consumers interviewed as in the previous survey considered themselves better off financially than they were a year ago and expected to be better off a year later, a smaller percentage than in late 1956 expected good times. Fewer thought it a favorable period in which to buy large household items.

This survey result serves as a warning that consumer purchases will not necessarily remain high. It suggests that they may decline even in the absence of a prior decline in income. The growing burden of consumer debt and the fall in the ratio of net financial assets to consumer expenditures might contribute to such a development. Any such decline in expenditures would, of course, tend to pull personal income down with them.

The experience of the past few years indicates, however, that consumer purchases of goods and services will probably remain high as long as income holds up. If the possibility of a decline cannot be entirely discounted, it would seem to arise on the side of over-all business and income rather than consumer expenditures as such. Any decline in income, however, would probably bring a contraction in expenditures.

LOCAL ILLINOIS DEVELOPMENTS

Sharp declines were recorded by several of the major indexes of Illinois business activity during July. Both petroleum and coal production dipped, 13 and 16 percent respectively. Construction contracts awarded were marked by a downward plunge of one-third.

Year-ago comparisons show a 30 percent drop in petroleum production, in contrast to gains of 10 to 15 percent for bank debits, electric power production, and Chicago business loans, and 26 percent for life insurance sales.

Hardwoods for Pulp

What are the possibilities of obtaining raw materials and establishing wood pulping plants in the portion of the Midwest including southern Illinois, southwestern Indiana, western Kentucky, and southeastern Missouri? This problem has been explored and the results have been published by the Carbondale Research Center in cooperation with the Area Services Division of Southern Illinois University.

The manufacture of paper and paperboard products from wood fiber is the most rapidly growing wood-using industry in America. The gross tonnage consumption of these products jumped from 17 million tons in 1946 to 29 million tons in 1952 and is expected to reach 58 million tons by 1975. Although less than 16 percent of this wood supply was hardwood in 1950, neither domestic supplies nor expected imports of softwood will be adequate to meet future needs. Hardwoods can help fill the gap.

In the area under consideration, both bottomland and upland hardwood forests occur in abundance, with more than one-fourth of the total area in forests. Climatic conditions are favorable to tree growth in this area. Good management of the rich bottomlands that are not cleared for farming because of the periodic flooding danger would help ensure a continuing pulpwood supply. In addition to wood, other necessities for a pulp plant are adequate power, labor, water, and transportation. All of these are available in this region.

Building Activity

An outstanding feature of the new F. W. Dodge 48-state construction contract series is that it allows state-by-state comparisons for the entire nation. For the first time, a midyear appraisal is possible.

California led the way with $2.2 billion in construction contract awards, a 7 percent gain over the same period last year. New York held the number two position with a 13 percent jump to $1.7 billion. In third place was Illinois with contracts totaling $1.2 billion; this represented a gain of 17 percent over the first six months of last year. The national average advance was 5 percent.

These three states accounted for nearly one-third of all construction contracts in the nation. Comparisons by types of construction placed California first in heavy engineering and residential building, and second in nonresidential building. New York took the lead in nonresidential building and second place in the other two major categories. Placing third in residential building and heavy engineering, Illinois was nosed out by both Ohio and Pennsylvania in nonresidential building.

Salary Survey

A survey of industrial, public institutional, and private institutional salaries in 48 occupational classifications was completed in early 1957 by the Illinois Department of Personnel. The survey was made in order to obtain data for comparison with State employee salaries. Comparisons of private and State salaries showed that of the 48 clerical and maintenance occupations surveyed, 44 occupations had arithmetic mean salaries for State employees that ranged from 3 to 40 percent below those of industrial employees.

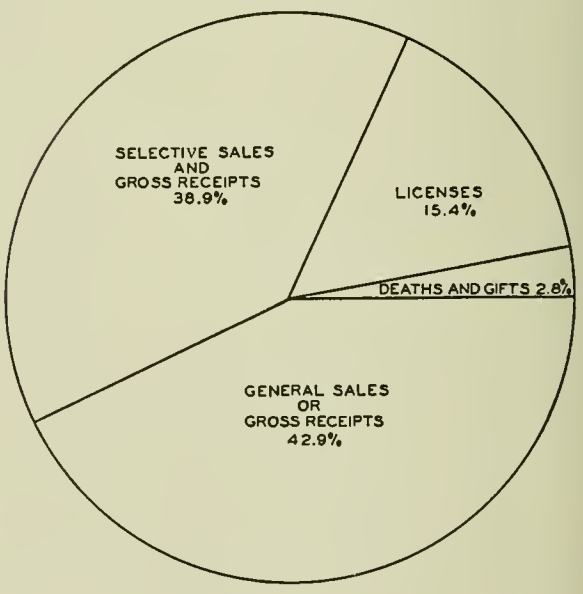
From these data the Illinois Department of Labor made a comparative analysis of the median (mid-point) salaries of private industry employees, by six geographical areas. The results indicated that, in general, average salaries for office occupations were higher in the Chicago area than in other parts of the State. The comparison of maintenance occupations showed little area variation in the median salaries of electricians and plumbers. However, the median salaries of other maintenance occupations varied widely among areas.

Record Tax Collections

Total state tax collections in the United States hit an all-time high of $14.4 billion in fiscal 1957, according to preliminary data published by the Bureau of the Census. All of the major tax categories shared in the net rise of $1.1 billion, an increase of 8 percent over 1956.

Illinois also recorded peak receipts ($691 million) for this period. With an average gain of 8 percent over fiscal 1956, Illinois was the fifth ranking state in order of total amounts collected. All major tax groups contributed to this rise with the exception of death and gift receipts, which declined nearly 4 percent. The largest increase came from the general sales or gross receipts taxes, which increased 15 percent. Selective sales and gross receipts taxes — levies placed on particular commodities or services such as motor fuels, liquor, and public utilities — gained only 1 percent. These two groups alone accounted for over four-fifths of the total receipts (see chart). License collections advanced nearly 9 percent over the previous year and accounted for 15 percent of total revenue.

MAJOR SOURCES OF STATE TAXES



Source: U. S. Department of Commerce, *State Tax Collections in 1957.*

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1957

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$43,276[a]	1,120,680[a]	$565,567[a]		$16,384[a]	$11,916[a]
Percentage change from	June, 1957	+12.9	+3.2	−1.2	−17	+3.3	−13.2
	July, 1956	+8.2	+8.7	−3.5	+8	+9.1	
NORTHERN ILLINOIS							
Chicago		$30,288	846,850	$411,804		$15,008	$10,399
Percentage change from	June, 1957	+4.1	+3.2	−0.8	−18	+3.8	−13.0
	July, 1956	+11.4	+10.3	−3.8	+9	+9.2	
Aurora		$ 396	n.a.	$ 8,514		$ 63	$ 105
Percentage change from	June, 1957	+4.8		+3.9	−22	−7.6	−21.5
	July, 1956	−60.4		−5.7	+7	+3.6	
Elgin		$ 281	n.a.	$ 6,458		$ 44	$ 63
Percentage change from	June, 1957	+1.4		+4.2	−13	−0.4	−32.7
	July, 1956	+0.7		+6.3	+9	+9.9	
Joliet		$ 745	n.a.	$12,009		$ 76	$ 73
Percentage change from	June, 1957	+25.4		−2.7	−11	−11.2	−18.5
	July, 1956	−0.9		−4.9	+16	+0.3	
Kankakee		$ 233	n.a.	$ 5,006		n.a.	$ 38
Percentage change from	June, 1957	−30.4		−8.3	n.a.		−23.8
	July, 1956	−20.2		−2.6			
Rock Island-Moline		$2,188	24,394	$10,678		$ 106[b]	$ 112
Percentage change from	June, 1957	+106.6	+10.6	−0.6	n.a.	−6.1	−20.1
	July, 1956	−55.4		+3.3		+11.8	
Rockford		$1,297	41,924[c]	$19,617		$ 174	$ 169
Percentage change from	June, 1957	+6.6	−1.1	−4.6	n.a.	−10.0	−16.3
	July, 1956	−26.0	+6.9	−2.3		+1.8	
CENTRAL ILLINOIS							
Bloomington		n.a.	7,918	$ 5,375		$ 67	$ 68
Percentage change from	June, 1957		−0.2	+0.9	n.a.	−1.7	−27.2
	July, 1956		+3.0	−1.4		+14.0	
Champaign-Urbana		$ 469	11,130	$ 7,835		$ 69	$ 72
Percentage change from	June, 1957	+5.2	+1.6	+6.3	n.a.	−4.2	−10.0
	July, 1956	−7.9	+4.6	+3.2		+10.1	
Danville		$1,298	11,600	$ 6,235		$ 50	$ 55
Percentage change from	June, 1957	+633.3	+3.2	+5.4	−5	+1.2	+0.0
	July, 1956	+308.2	+2.1	−2.9	+3	−0.6	
Decatur		$1,304	31,293	$11,506		$ 119	$ 93
Percentage change from	June, 1957	+50.9	+1.5	−9.1	−9[c]	−0.1	−10.1
	July, 1956	−5.9	−3.0	−5.9	+7[c]	+5.2	
Galesburg		$ 410	8,537	$ 4,577		n.a.	$ 31
Percentage change from	June, 1957	−83.3	+4.9	+1.8	n.a.		−20.4
	July, 1956	+32.3	+3.2	+3.8			
Peoria		$3,117	52,365[c]	$18,346		$ 244	$ 204
Percentage change from	June, 1957	+488.1	−6.0	−0.7	−16[c]	+0.1	−26.2
	July, 1956	+751.6	+2.2	−4.4	0[c]	+10.0	
Quincy		$ 208	9,719	$ 5,156		$ 45	$ 56
Percentage change from	June, 1957	−20.6	−5.5	−13.3	−10	+5.6	−0.1
	July, 1956	−28.3	+11.1	+2.7	+2	+13.2	
Springfield		$ 448	39,361[c]	$13,391		$ 124	$ 234
Percentage change from	June, 1957	+21.1	+18.0	−8.8	−11[c]	+5.3	+3.0
	July, 1956	+109.3	+8.0	−6.0	+5[c]	+6.0	+6.0
SOUTHERN ILLINOIS							
East St. Louis		$ 281	12,914	$ 9,339		$ 155	$ 77
Percentage change from	June, 1957	+97.9	+16.3	−1.9	n.a.	+11.5	+49.4
	July, 1956	+208.8	−11.4	−6.2		+12.3	
Alton		$ 102	14,175	$ 4,923		$ 41	$ 28
Percentage change from	June, 1957	+13.3	+4.3	+1.9	n.a.	+2.4	−9.1
	July, 1956	−57.1	+3.1	−7.7		+9.4	
Belleville		$ 210	8,499	$ 4,799		n.a.	$ 39
Percentage change from	June, 1957	+500.0	+10.2	+0.4	n.a.		−26.7
	July, 1956	+121.1	+3.9	−1.0			

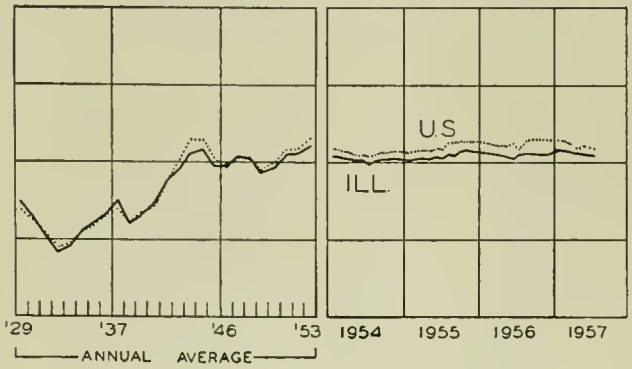
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for June, 1957. Comparisons relate to May, 1957, and June, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting period ending July 26, 1957.

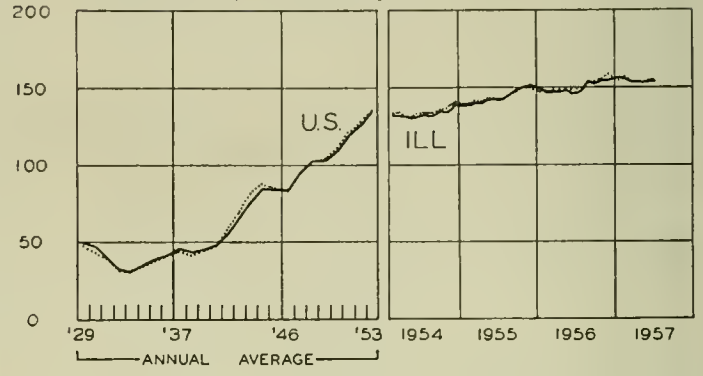
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

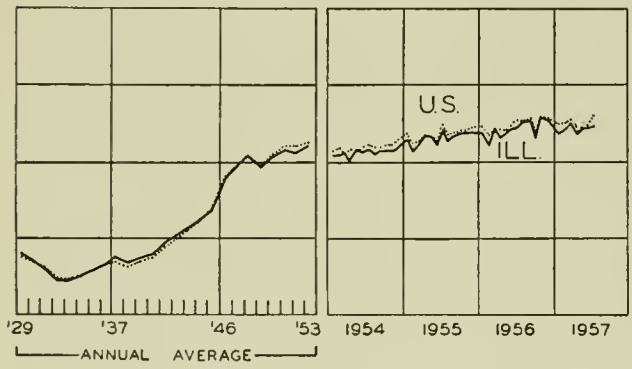
EMPLOYMENT–MANUFACTURING



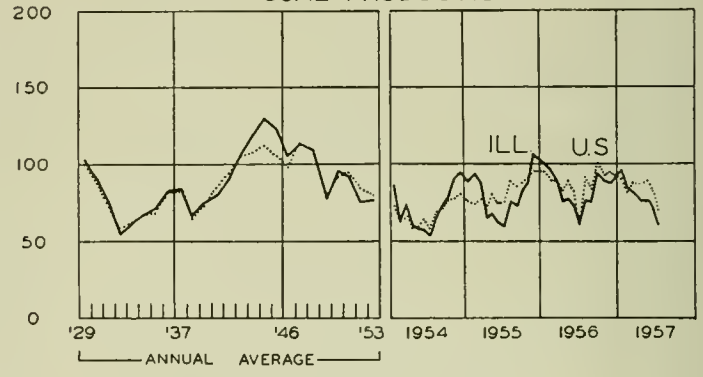
AVG. WKLY. EARNINGS —MANUFACTURING



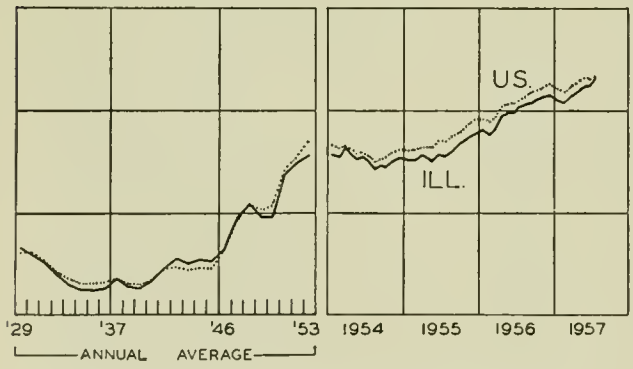
DEPARTMENT STORE SALES



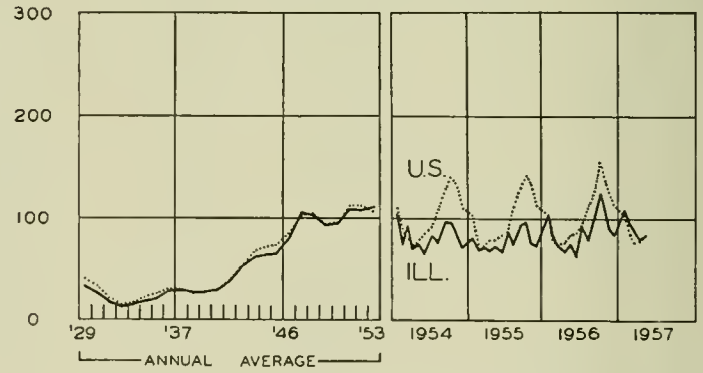
COAL PRODUCTION



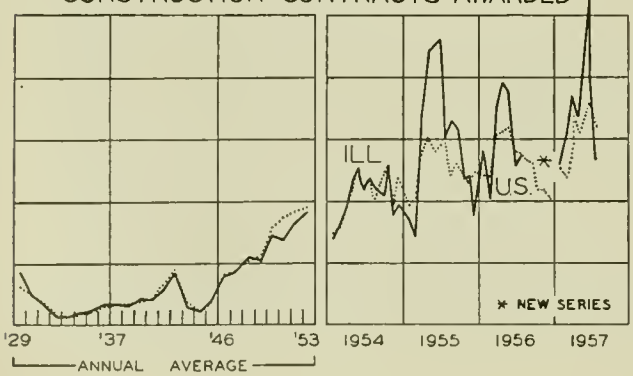
BUSINESS LOANS



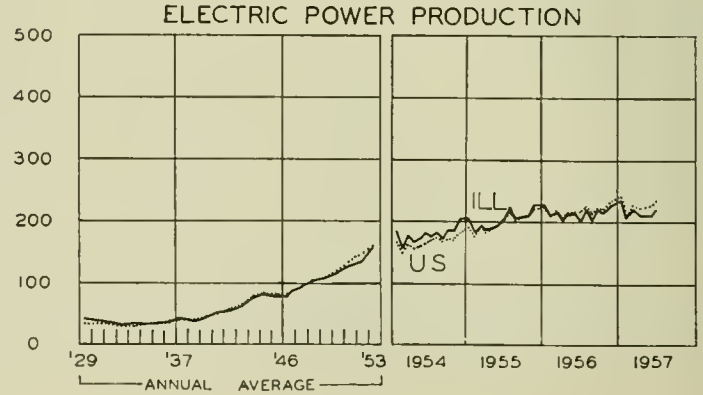
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
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COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Short-term indicators pointed generally in September to further weakening of business activity. Most spectacular, although not most significant, were the continuing sharp declines in stock prices, which carried to new lows in the first part of October. Weakening of department store sales, which fell below the corresponding month of last year for the first time in 1957, suggests that retail sales did not maintain the gain which has been viewed as a major source of strength in the business situation. The lag in production of steel, paper, petroleum, lumber, and a number of other commodities indicates that over-all industrial output may have fallen below the August level of 144 (1947-49 = 100).

Other straws in the wind were the lower output of electric power, the decline in heavy construction awards, the drop in carloadings, and the marked fall-off in spot commodity prices. Brighter spots in the picture were increases in auto sales and increased output of paperboard.

Machine Tool Orders Off

Net new orders for machine tools fell from $55.5 million in July to $44.7 million in August. Although still above the May and June lows, August new orders were little more than half as large as in August a year ago.

Shipments of machine tools amounted to $63.5 million, up from the July low of $58.7 million but well below August, 1956, shipments of $75.1 million.

Construction Outlays Remain High

September construction work set a new high, just above the previous one of $4.6 billion reached in August and 4 percent above September, 1956. It made the third quarter the most active three-month period on record with an annual rate of $47.4 billion after seasonal adjustment. This compared with a $46.8 billion rate for the first six months of 1957 and actual outlays of $46.1 billion in 1956.

Both private and public construction reached new highs. Increased public utility building activity raised private construction to $3.1 billion for the month. Expenditures for new residential building remained at the August level, but were 8 percent below September of last year. Industrial construction continued the decline which began in April, falling to $260 million, 2 percent below August and 6 percent below September, 1956. However, the nine months' total for this field was still 7 percent above the corresponding period last year. Public construction climbed to $1.5 billion, 2 percent above August and 12 percent above September last year.

The significance of the increased total outlays, which put the figure for the first nine months of the year 2 percent above the corresponding period of last year, was qualified by the fact that building costs have risen by a greater percentage, so the physical volume of construction actually declined. Furthermore, construction contracts awarded have fallen below year-earlier levels for two consecutive months. Awards in August were 5 percent below August, 1956. A sharp decline in contracts for heavy engineering construction, particularly by public utilities, accounted for the drop as it did in July when total awards fell 4 percent below the year-ago estimate. On the other hand, residential building contracts rose 5 percent above August last year, a 100 percent increase in apartment house contracts more than offsetting a 1 percent decline in awards for one- and two-family houses.

Business Inventories Up, Sales Down

The book value of business inventories rose during August by $200 million on a seasonally adjusted basis, whereas total manufacturing and trade sales fell by $400 million after allowance for seasonal factors. The increase in inventories was split between retail and wholesale trade, with expansion in the stocks of automobiles in the hands of dealers accounting for most of the addition at the retail level and growth in holdings of nondurables accounting for that of wholesalers.

The decline in sales was confined to manufacturing and affected both durable and nondurable goods producers.

Consumer Debt Rises

Consumers expanded their outstanding debt by $516 million in August, with $346 million in additional installment debt and $170 million added to noninstallment debt. The increases raised installment debt outstanding to $33 billion and total consumer debt to $42.9 billion.

The gain in installment debt was about the same as in August last year, but little more than half that of August, 1955. All types of consumer debt increased during the month, with advances of $160 million in automobile paper and $106 million in personal loans accounting for most of the growth in installment debt and an addition of $143 million to charge accounts making up the major part of the gain in noninstallment debt.

THE QUEST FOR TIGHT MONEY · · · By Paul T. Kinney · · · Page 6

ILLINOIS BUSINESS REVIEW

Published monthly by the

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Lags in Government Action

Last month, President Eisenhower appointed an "Anti-Inflation Committee" to meet with him for the purpose of reviewing developments and policies relating to the problem of inflation. The committee consists of Secretary of the Treasury Anderson, Chairman Martin of the Federal Reserve Board, Chairman Saulnier of the Council of Economic Advisers, and top White House Economic Aide Gabriel Hauge.

It was made clear in announcing the new committee that it was not being organized to undermine the Federal Reserve's independence. In fact, FRB spokesmen indicated the committee would give Martin a better opportunity to present the Board's position.

Review of the background suggests that this action is one of those belated government moves that reflects the cumulation of pressures but resolves few if any of the underlying difficulties. Washington has been flooded with complaints, both from those who want prices restrained and from those who want funds to purchase or produce still more. However, the former have tended to dominate the mail to Washington through the spring and summer of this year. People always find taxes burdensome and are particularly irked when real incomes are cut further by rising prices.

Any Need for Restraint?

The whole furore has arisen at the end of a long period during which the consumer price index has doubled — from 60 just before World War II to 121 in August, 1957 (1947-49 = 100). In the base years, the index was relatively stable; the first 40 points must clearly be attributed to the war. By the latter part of 1953, the index had reached 115; to the extent that these 15 points are not a continuation of World War II inflation, they may be attributed to the Korean War. At the end of 1955, the index was still at the same level. The last six points were added after food prices began to recover in the spring of 1956. The controversy really centers around the last six-point increase, which is only a tenth of the total advance over the last two decades.

The sharp differences between those who support a strong anti-inflationary position with such phrases as "sheer momentum" and "inflationary bias" and those who doubt the likelihood of continuing price advances can scarcely be resolved by analyzing the causes of the recent upsurge. The usual explanation, agreed upon by all, is that demands from all sectors of the economy — business, consumers, government, and exports—have pushed ahead too rapidly. There has been no agreement, however, as to whether the advance in total demand is temporary or permanent. But even beyond this lack of agreement as to the outlook, there is a difficulty in interpretation. It arises from the fact the price movement has not had the support of such traditional sources of inflationary pressure as over-full employment and Federal deficits. Unemployment has continued at the "normal" or "practical" minimum of 4 percent of the labor force, and the Federal government budget has shown surpluses in each of the last two years.

Somehow, the strength of the price advance in recent years appears to have been associated with a basic shift in attitudes about the outlook. The depression-mindedness that persisted over the war years was displaced by a definite consciousness of prosperity. Labor saw an economy capable of providing greater security and leisure for workers and sought to obtain the gains of increasing productivity, not just in money but in real wages. Industry felt that its markets were strong enough to enable it to pass on all cost increases through the application of pricing formulas that would facilitate financing of the new plant and equipment it considered necessary. Each has blamed the other for fueling the fires of inflation. Neither seems to have recognized that all were suffering from a common malady.

In recent weeks, attitudes appear to be again shifting. Businessmen have increasingly expressed doubts as to the likelihood of any continuing price advance. The stock market has taken cognizance of a possible "cost-price squeeze" by declining to new lows.

Commodity price movements also point to a petering out of the modest inflationary movement of the past two years. Sensitive commodity prices have fallen to new post-Korean lows. The general wholesale index has tended to drift downward gradually from the summer peak. The consumer price index has continued up only because of food price increases, partly seasonal in character, and long-term uptrends in rents and other services.

When viewed as preliminary indications of a reversal, these price movements fit into the pattern revealed by the past history of business cycles. Excesses have typically been self-limiting, except in situations where war or other government programs supported the advance. The primary restraint that has been needed in the recent boom period is that of holding the money supply relatively stable. This restraint has been provided by Federal Reserve policy, and it is therefore not at all extraordinary that the recent 6 percent "inflation" which was not derived from war programs should now be losing its steam.

The Limitations on Government Action

The only serious threat of inflation to be faced in this country derives from another major war or from other government programs calling for large increases in the money supply. Given peace, the only remaining possibility would seem to lie in large deficits incurred to prevent any substantial economic decline. Those optimists who stress the permanence of prosperity on the grounds that the government can and will do everything necessary to prevent recessions are in a sense the real advocates of inflation in this country, even though they may at times align themselves with the anti-inflationists.

Actually, however, there are elements in the current situation that call in question the government's ability to

(Continued on page 8)

THE LEATHER FOOTWEAR INDUSTRY

Manufacture of shoes was first begun in the United States in 1629, when two British shoemakers began operations under contract with the Massachusetts Bay Company to make shoes for the colonists. Until the industrial revolution finally brought shoe-making into factories, manufacture was carried on primarily in the homes of the individual workers, who were often assisted by members of their families.

Machine operations were organized during the nineteenth century. In 1833 a machine was invented to join outsole to insole with pegs, similar to those used earlier to attach heels. By the time this machine came into general use, the Howe sewing machine, an instrument which sewed the uppers together, was introduced. In 1861, the McKay sewing machine for sewing the soles to shoes was developed and offered to manufacturers on a royalty basis, a practice which has continued as a feature of the industry to the present time. This procedure was of primary importance because it made possible the establishment of a shoe factory with a small amount of capital by using leased machinery. Thus, the royalty system helped the industry to spread to the Midwest, where essential resources, such as an abundant labor supply and raw materials (hides), were readily available. The general movement of the American people also contributed to this shift.

Leader in Footwear

Today, the United States is easily the world's largest producer of leather footwear. In 1955, it produced almost 40 percent of the 1.5 billion pairs made that year. This manufacturing edge gave American civilians the world's highest per capita shoe consumption. Output amounted to 3.5 pairs per person that year compared with the world's .68 pair. Consumption per capita was one and one-half times that of Canada or Great Britain and more than twice that of any other nation.

Population growth, gains in income and level of living, and changes in buying habits have supported continued expansion in output during the past decade. Although the number of leather shoe manufacturing establishments declined 7.4 percent between 1947 and 1954, total shoe production increased 9 percent.

The shoe industry employed more than 230,000 workers in 1954, of whom 91 percent were production workers. In each year since 1914, it has employed more than 195,000 workers, a fact reflecting the stability of the industry.

The nation's 24,000 retail shoe stores provide the most important outlet for the shoes produced. These made 52 percent of all shoe sales in 1954, with independent shoe retailers accounting for 32 percent, and chains (11 or more stores) the remaining 20 percent. In all, there are some 70,000 retail shoe outlets, including clothing stores and mail order houses. Department stores, constituting only 3 percent of all retail shoe outlets, sold about 16 percent of the total dollar volume in 1954.

Shoe Industry Organization

The industry has become almost entirely mechanized. Many types of machines are required for the numerous operations in making shoes. In some systems, as many as 250 separate operations are necessary for the completion of a pair of shoes. Some procedures, such as cutting, still require a high degree of skill, but most operations are light, permitting extensive employment of women.

Despite the mergers and amalgamations it has undergone during and subsequent to mechanization, the shoe industry remains highly competitive. It has less concentration of productive capacity by individual firms than exists in most other important industries. A recent study by the Bureau of the Census revealed that the 50 largest shoe-producing companies accounted for less than half of total leather footwear output in 1954. Although the eight leading firms produced almost 30 percent of the 1954 total (34.7 percent in 1947), no other company produced as much as 1 percent. Entry into the industry has not been common in recent years since it is difficult to break into the established retail distribution set-up. Hence, the major companies are rather firmly entrenched. Except for the large companies, most producers do not operate over the whole field but confine their output to certain products in a given price range. Various aspects of the industry, such as mechanization of plants, decentralization with the consequent opportunity to move into lower wage areas, and the extensive employment of women, have resulted in lower wage scales than are found in many industries.

Shoe Manufacture in Illinois

Shoe manufacturing has spread out considerably in the United States during the past hundred years, but production is still centered in certain areas. For example, 10 states, including Illinois, have consistently accounted for more than 85 percent of output.

Although its importance as a shoe-making state has declined in recent years, Illinois still ranked seventh last year, producing 4.8 percent of the national total. About 29 million pairs were manufactured in the State last year, a decline of nearly 5 million pairs since 1947. Illinois had 52 establishments in 1954; they employed more than 15,000 persons, a loss of more than 4,000 workers since 1947. Nearly 83 percent of the State's factories in 1954 employed more than 20 workers, the average number per plant being 295.

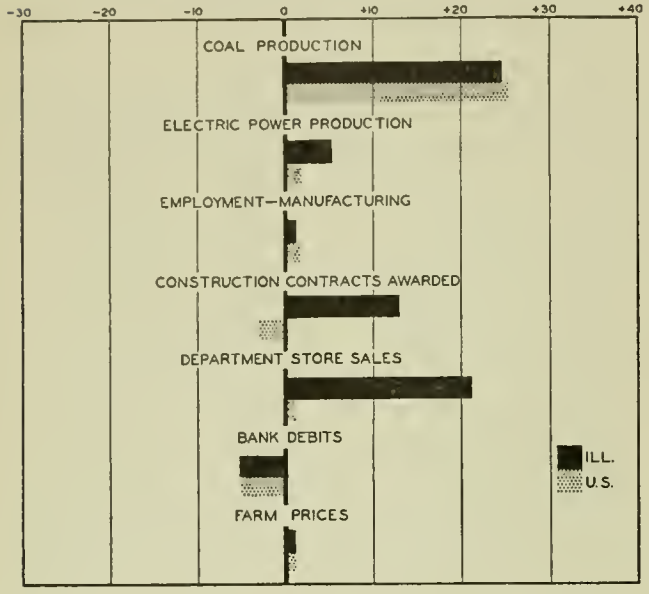
Nearly one-third of the shoe and slipper factories of the State are found in Chicago where skilled workers are generally available for the production of certain types of high-quality shoes. The remainder, primarily engaged in manufacture of medium-quality shoes, have located downstate to enjoy advantages of a cheaper labor supply in highly mechanized plants.

Because of its large population and favorable location, Illinois is fourth in number of retail shoe stores, with more than 1,500. Sales volume from these stores totaled $129.7 million in 1954, the fourth highest state total.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1957, to August, 1957



ILLINOIS BUSINESS INDEXES

Item	August 1957 (1947-49 =100)	Percentage change from July 1957	Percentage change from August 1956
Electric power[1]	234.3	+ 5.3	+ 7.7
Coal production[2]	74.0	+24.5	− 4.2
Employment—manufacturing[3]	106.0	+ 1.3	− 2.1
Weekly earnings—manufacturing[3]	153.9[a]	− 0.9	+ 4.6
Dept. store sales in Chicago[4]	128.0[b]	+ 4.1	+ 7.6
Consumer prices in Chicago[5]	124.1	0.0	+ 3.4
Construction contracts awarded[6]	302.2	+13.0	n.a.
Bank debits[7]	177.7	− 5.2	+ 6.8
Farm prices[8]	86.0	+ 1.2	+ 2.4
Life insurance sales (ordinary)[9]	283.2	+ 2.7	+24.0
Petroleum production[10]	93.0	+ 3.4	−28.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] July data; comparisons relate to June, 1957, and July, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	August 1957	Percentage change from July 1957	Percentage change from August 1956
	Annual rate in billion $		
Personal income[1]	347.3[a]	+ 0.3	+ 5.5
Manufacturing[1]			
Sales	343.2[a]	− 1.4	+ 3.6
Inventories	54.1[a, b]	0.0	+ 9.3
New construction activity[1]			
Private residential	18.6	− 0.2	− 7.1
Private nonresidential	18.6	+ 4.4	+ 6.8
Total public	17.9	+ 9.9	+10.2
Foreign trade[1]			
Merchandise exports	20.3[c]	− 5.4	+ 3.2
Merchandise imports	13.7[c]	+16.2	+ 8.8
Excess of exports	6.6[c]	−31.5	− 6.8
Consumer credit outstanding[2]			
Total credit	42.9[b]	+ 1.2	+ 7.5
Installment credit	33.0[b]	+ 1.1	+ 7.8
Business loans[2]	32.0[b]	+ 0.9	+ 9.8
Cash farm income[3]	29.3[c]	+17.9	+ 3.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	144[a]	0.0	+ 0.7
Durable manufactures	162[a]	0.0	+ 2.5
Nondurable manufactures	131[a]	+ 0.8	+ 0.8
Minerals	128[a]	+ 0.8	− 1.5
Manufacturing employment[4]			
Production workers	104	− 0.3	− 1.6
Factory worker earnings[4]			
Average hours worked	100	+ 0.5	− 1.0
Average hourly earnings	156	0.0	+ 4.5
Average weekly earnings	156	+ 0.5	+ 3.5
Construction contracts awarded[5]	311	− 2.9	− 5.0
Department store sales[2]	134[a]	+ 1.5	+ 3.9
Consumer price index[4]	121	+ 0.2	+ 3.6
Wholesale prices[4]			
All commodities	118	+ 0.1	+ 3.1
Farm products	93	+ 0.2	+ 4.4
Foods	107	− 0.5	+ 4.0
Other	126	+ 0.2	+ 2.8
Farm prices[3]			
Received by farmers	92	+ 1.1	+ 5.7
Paid by farmers	118	0.0	+ 2.6
Parity ratio	84[d]	0.0	+ 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for July, 1957; comparisons relate to June, 1957, and July, 1956. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Sept. 21	Sept. 14	Sept. 7	Aug. 31	Aug. 24	Sept. 22
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,678	1,683	1,716	1,677	1,658	1,675
Electric power by utilities...mil. of kw-hr	11,991	11,947	11,678	12,147	12,023	11,482
Motor vehicles (Wards)...number in thous	64	103	108	139	144	50
Petroleum (daily avg.)...thous. bbl	6,840	6,821	6,807	6,766	6,789	7,063
Steel...1947-49 =100	122	122	120	122	122	144
Freight carloadings...thous. of cars	725	741	646	745	759	822
Department store sales...1947-49 =100	126	131	113	134	121	131
Commodity prices, wholesale:						
All commodities...1947-49 =100	117.8	118.1	118.3	118.0	118.0	115.5[a]
Other than farm products and foods...1947-49 =100	125.8	125.8	125.9	125.6	125.7	123.1[a]
22 commodities...1947-49 =100	87.4	87.9	88.3	88.4	88.8	91.9
Finance:						
Business loans...mil. of dol	32,603	32,279	32,046	32,012	32,217	29,694
Failures, industrial and commercial...number	287	237	208	262	260	262

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for September, 1956.

RECENT ECONOMIC CHANGES

Consumer Price Advance Continues

The consumer price index recorded its twelfth consecutive monthly increase in August. The 0.3 percent climb during the month brought average prices to 121.0 (1947-49 = 100). The principal cause for the latest advance was the substantial upward movement in food prices. Although the 0.5 percent rise in food prices was only half that of the previous month, it still represented the largest advance for any category and brought food prices to a new all-time high of 117.9. This is about 1.2 percent above the previous record peak of August, 1952, which was surpassed in both July and August of this year. Cigarette prices, which had experienced a sharp increase during the preceding month, leveled off in August. With the exception of food, all major groups maintained a relatively stable position during the month with price increases ranging from 0.1 to 0.2 percent.

Plant and Equipment Expenditures

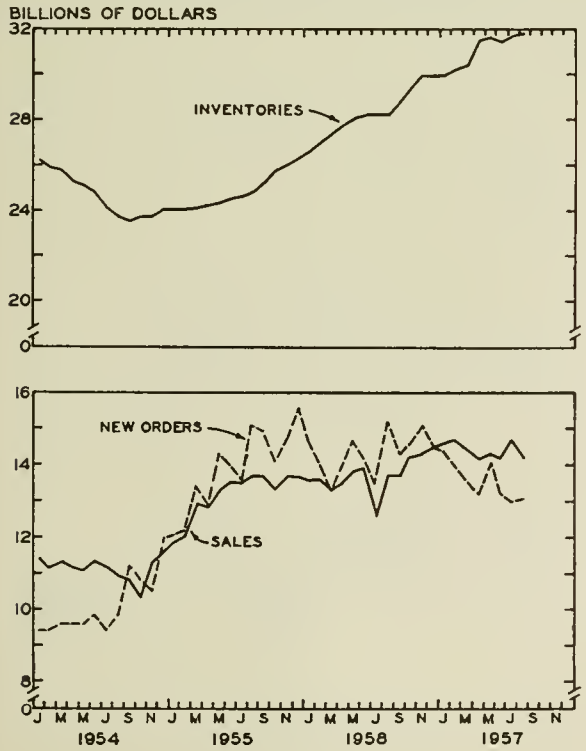
The August survey by the Securities and Exchange Commission and the Department of Commerce indicates that capital outlays for new plant and equipment are expected to level off at a high rate during the second half of this year and to establish a record total of $37 billion for 1957.

During the second quarter American business firms made actual expenditures at a seasonally adjusted annual rate of $37 billion and anticipated outlays at a rate of $37.2 billion in the third and fourth quarters.

However, judging from the discrepancies which have appeared between expectations and actual expenditures recently, it would seem that the optimism of the August survey should be subject to some qualification. Since the second quarter of 1956, actual outlays for new plant and equipment have consistently failed to come up to preliminary forecasts. The deficiencies during this period have averaged more than $1 billion at annual rates.

Further evidence of a need for qualification is furnished by the National Industrial Conference Board, which reports that second quarter reductions in capital appropriations by the 1,000 largest manufacturing companies were greater than is seasonally normal. In addition, outlays during the second three months exceeded commitments so that there was actually a decline in the appropriations backlog to about the level of last year. However, the remaining backlogs are still very large, about $10.0 billion at midyear, and indicate that manufacturers' capital outlays will continue as an element of strength in the economy during the months immediately ahead even if expenditures do fall short of expectations for the last two quarters.

DURABLE GOODS MANUFACTURING



Source: U. S. Department of Commerce.

Manufacturers' Sales and Inventories

On a seasonally adjusted basis, manufacturers' sales fell off slightly during August from the $29 billion level in July. Sales in August were about $400 million less than in the previous month with the durable goods industries absorbing most of the reduction. All of the major durable goods industries, with the exception of the transportation group, shared in the decline in sales. Compared with last year, after allowance for seasonal and working day differences, manufacturers' sales were up about 4 percent with the durable and nondurable goods industries sharing about equally in the gain.

Inventories held steady during August at the previous month's level of $54.1 billion, whereas new orders dropped by $100 million to $27.2 billion. Although shipments declined more than new orders during the month, the value of shipments still exceeded new orders by $1.5 billion, continuing the downtrend in unfilled orders which started last winter.

Movements of sales, orders, and inventories in durable goods industries are depicted in the chart. Inventories continue their advance which began in late 1954 whereas new orders, after a brief upturn in May, have resumed their downward movement. At the end of August the ratio of inventories to sales for the durable goods industries was about 2.24. This compares with a ratio of 2.10 a year ago.

Individuals' Savings

Savings by individuals in the United States reached $9.2 billion in the first six months of 1957 — $2.0 billion larger than in the first half of 1956. The high volume of saving through June mainly reflected increased personal income and a reduction in the expansion of individuals' debts.

Savings in the second quarter amounted to $3.2 billion, much lower than the figure for the first quarter. However, the discrepancy was in large part the result of seasonal factors. As has been the pattern in recent years, purchases by individuals of United States government bonds, other than savings bonds, were small in the second quarter compared with substantial acquisitions in the first three months. In addition, there was a growth in consumer indebtedness during the April-June period in contrast to the reduction of the previous quarter. Nevertheless, savings in the second quarter of 1957 were still considerably greater than the $2.0 billion of the corresponding 1956 period.

(Continued on page 8)

THE QUEST FOR TIGHT MONEY

PAUL T. KINNEY, Assistant Professor of Finance

Tight money is a characteristic of the economy today and has dominated the money and capital markets during much of the past two years. Interest rates have risen sharply; short term rates have moved to new post-depression highs, and in the bearish bond markets, yields have also risen to quarter-century peaks. The quest for tight money has pinched the reserve positions of commercial banks and has forced them to increase their borrowings from the Federal Reserve. In short, the money markets are tighter today than at any time in recent history.

The condition of tight money is a matter of degree rather than kind. It is characterized by a dearth of loanable funds relative to the demand for loans, and consequently, by relatively high prices paid for the use of borrowed funds (i.e., high interest rates). Tight money is also reflected in depressed bond prices and a decrease in the spread between interest rates on securities of different maturities.

As a weapon against inflation, a tight money policy is implemented through the joint action of the Federal Reserve and the Treasury. These institutions have coordinate powers for forcing interest rates up and restricting the lending power of banks. The policy goal of tight money has been pursued most of the time since 1955.

Two Years of Credit Restraint

The beginnings of the present tight money policy stem from the spring of 1955, when the economy was bouncing back from a recession of the previous year. The recovery phase was in full swing. Employment and output were rising steadily and adding their bit to the unmistakable signs of prosperity. Buyers were showing renewed interest in installment purchases. Businesses were increasing their borrowings in anticipation of a general increase in consumer demand.

Changing economic conditions signaled a shift in Federal Reserve policy to one of credit restraint. The Federal Reserve moved early to forestall the excesses of an unbridled credit boom. Each of the 12 Federal Reserve banks increased their discount rates in four steps from 1.5 to 2.5 percent during the year ending in the spring of 1956. At the same time member banks of the Federal Reserve System found their reserve positions restricted through Federal Reserve open market sales of United States government securities. In the face of rising money costs and tighter reserve positions, member banks increased their borrowings from the Federal Reserve, to the point where they exceeded excess reserves by the middle of 1955. As indicated by Chart 1, free reserves disappeared by that time.

The object of these actions by the Federal Reserve was to restrict credit expansion by putting a damper on the lending power of commercial banks. By absorbing free reserves through open market operations, the Federal Reserve limited the member banks to two alternatives if they wished to expand their loans: They could borrow from the Federal Reserve banks at penalty rates, or they could sell some of their earning assets in order to obtain additional reserves.

Commercial banks met their new demands for credit by both courses of action. Member bank borrowings from the Federal Reserve increased sharply during 1955 and have continued at relatively high levels since that time. Bank holdings of United States government securities dropped from a peak of over $70 billion in November, 1954, to about $56 billion in the third quarter of 1957.

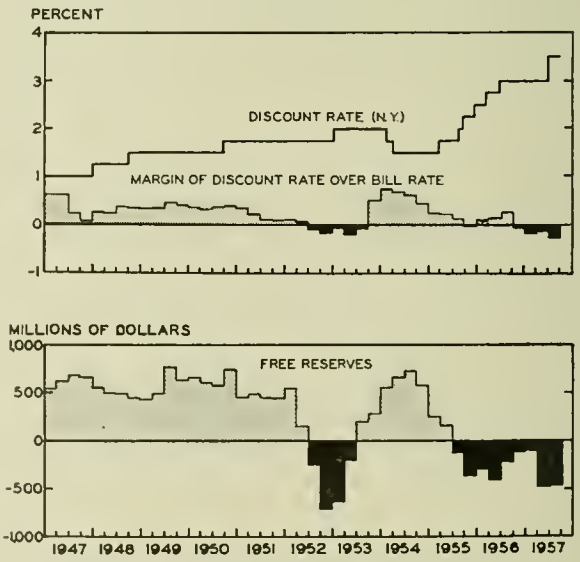
Short-term rates generally made sharp advances during 1955. Rates on prime commercial paper more than doubled during the year and stabilized briefly at about 3 percent by the end of 1955. At the same time the volume of prime paper increased by more than 20 percent. Market rates on 3-month Treasury bills continued their bold rise which had begun in June of the previous year. Starting at a low of less than one-half of 1 percent, the Treasury bill rates jumped to 2.5 percent by the end of 1955. In contrast to the sharp rise in short-term rates, yields on bonds did not rise much during 1955. (See Chart 2.)

In the face of costlier credit and monetary restraint, the economy continued its expansion in full swing. Corporate profits rose sharply; so did the prices of common stock. The volume of bank loans expanded in disregard of both the sharp rise in interest rates and the restrictive pressures on bank reserves.

From the spring of 1956 until mid-1957, with the stock market holding near the high, the economy showed some outward signs of continued expansion. Yet the main advances were in prices rather than in production, and profits were unable to match the peak of late 1955. Measures of living costs showed substantial increases; wholesale and consumer prices climbed steadily during the 15-month period.

Throughout much of this period of rising prices and relatively stable production, the quest for tight money continued in earnest. Discount rates of the Federal Reserve banks moved up to 3 percent in the fall of 1956. Other short-term rates advanced accordingly. After floundering briefly during mid-1956, yields on 3-month Treasury bills regained their previous levels and advanced above the 3 percent discount rate. By the end of 1956, 3-month Treasury bill rates were more than six times higher than their lowest level in 1954.

CHART 1. MONETARY DEVELOPMENTS



Source: Federal Reserve Board.

A notable shift in interest rate structures had occurred by the end of 1956. Short-term rates had been rising since 1954. Bond yields also registered substantial gains in 1956 but not in proportion to the advances in rates on shorter maturities. Thus by the end of the year, short-term rates were approaching the yields on longer-term issues; the spread in interest rates had narrowed considerably.

In terms of interest rate changes, tight money began to have considerable effect during 1956. However, commercial banks continued to expand their loans at nearly the same rate as in 1955. As in the previous year, bank-held United States government securities declined, and member bank borrowings from the Federal Reserve continued at relatively high levels.

A momentary reversal in tight money conditions coincided with the Christmas holiday season of 1956. In answer to seasonal increases in the demand for loans, Federal Reserve banks took action to ease the reserve positions of member banks; subsequently member bank borrowings from the Federal Reserve banks decreased, and "free reserves" reappeared briefly during the holiday season. As an aftermath of temporary increases in bank reserves, bond yields and short-term rates declined moderately in the first quarter of 1957. Thereafter renewed efforts to restrict money and credit conditions were reflected in interest rate changes and in the reserve position of member banks.

Monetary Conditions in 1957

The quest for tight money continued through September, 1957. With the exception of the momentary easing of money conditions in the first quarter, there was no basic change in tight money policy during this nine-month period. Interest rates generally advanced further. Short-term rates established new highs. Member bank reserves were under increasing pressure from the Federal Reserve.

Reversing moderate declines in yields during the first quarter of 1957, short-term rates forged ahead in the succeeding months. By August the 3-month Treasury bill rate had reached its highest level in the 24 years since the bank holiday of 1933. Further increases in September brought the bill rate up to 3.6 percent. From its 3 percent level established a year earlier, the Federal Reserve's discount rate was increased to 3.5 percent in August. Other short-term rates moved up accordingly.

A traditional policy of the Federal Reserve is to maintain discount rates above the current Treasury bill rate. However, as indicated in Chart 2, the opposite relationship has prevailed for nearly a year. Such an arrangement weakens the ability of the Federal Reserve to control bank reserve positions and presents a situation whereby commercial banks might profit through trading in Treasury bills with funds borrowed from the Federal Reserve banks. The August increase in the discount rate did re-establish the traditional bill-discount rate relationship for a short time, but subsequent increases in the bill rate occurred in September. For most of the month the bill rate was higher than the new 3.5 percent discount rate.

Anticipating the August increase in the Federal Reserve banks' discount rate, private short-term lenders advanced their rates early in August. Prime loan rates increased to 4.5 percent. Dealers in bankers' acceptances advanced their rates; commercial paper rates increased at the same time.

Recent Effects of Treasury Financing

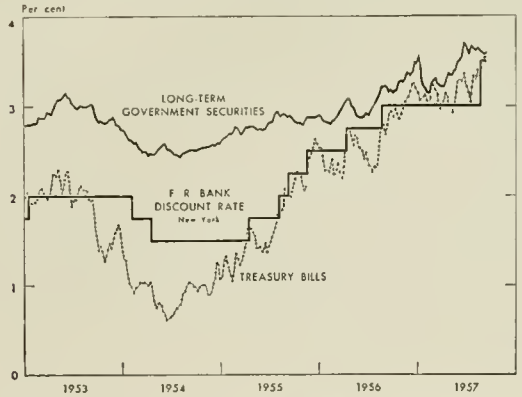
The Treasury has been instrumental in implementing tight money policy in 1957 as well as during the two previous years. In turn the Treasury's debt management operations have felt the impact of tight money reflected in cautious bidding for new issues and in higher interest costs of government debt outstanding. A heavy volume of refunding in July produced a 4 percent rate on the short- and intermediate-term securities included in the $24 billion exchange offering. The high rate, plus the fact that the exchange offering was not fully subscribed, were major influences on the market's anticipation of further rate increases during succeeding weeks. Reluctant bidding on an August special issue of 237-day Treasury bills pushed yields up to a high of 4.30 and an average of 4.17 percent for the issue.

A rate level of 4 percent seemed to be excessive when, in September, a $3 billion Treasury offering of 12-year bonds, 3-year notes, and 1-year certificates was greatly oversubscribed. For the $500 million 12-year 4 percent bonds included in the offering, subscriptions totaled $4.6 billion; the combined subscription for the three maturities was $13.6 billion. With so substantial an oversubscription the tightness of money might be questioned. Yet subsequent trading in these new securities depressed their prices below par.

Aside from the short-lived easing of money conditions at the beginning of the year, tight money was strongly affecting bank reserves and beginning to influence the volume of bank loans during the first nine months of 1957. Loans and investments of member banks increased a moderate 3.4 percent during the year ending in July, 1957. Compared with the previous year, this represented a significant reduction in the rate of increase in bank loans and investments. Businss loans by major New York banks expended by $459 million during the first nine months of 1957, compared with an increase of $1,613 million for the corresponding period in 1956. In the third quarter, the New York banks decreased the volume of their loans by $180 million; for the corresponding period in 1956 these banks had increased their loans by $624 million.

As in the two previous years of credit restraint, expansion in bank loans in 1957 was accompanied by a divestment of some bank holdings of Treasury securities, although the rate of divestment declined relative to the previous two years. Showing strong preference for shorter maturities, commercial banks coupled their divestment with a shift in the maturity distribution of their portfolio. While reducing their holdings of Treasury notes during 1957, member banks increased their investment in shorter-term bills and certificates.

CHART 2. INTEREST RATES



Source: *Federal Reserve Bulletin,* September, 1957, p. 1038.

Reserve positions of member banks remained under pressure during most of the year. Member banks continued to borrow heavily from the Federal Reserve banks during 1957. In the third quarter, average monthly borrowings were about $500 million greater than their average excess reserves and nearly twice the monthly average for the corresponding period of the previous year.

Tight Money Today

At the close of the third quarter of 1957 tight money prevailed, and few outward signs gave any indication of a reversal of tight money policy in the immediate future. The month of September ended with interest rates at or near their high point of the year. Reserve positions of member banks had not eased by the end of the month. The money and capital markets signaled no basic change in money conditions as of the end of the third quarter.

Yet beneath the semblance of continued tightness are indications of an easing of monetary conditions in the months ahead. General business indicators point to a probable downturn in economic activity in the near future. Private investment expenditures have leveled off in the third quarter; the rate of credit expansion has slackened; a curtailment of production and employment has occurred in some industries. Security prices have tumbled since July. Other business indicators point to a probable downturn in the level of business activity in the near future. To the extent that these signs of business decline become more obvious, an easing of monetary conditions will occur, and tight money policy will be shelved until inflationary pressures again predominate.

During the recent reign of tight money, the fight against inflation has been more a delaying action than a decisive victory. Even though prices continued to rise, living costs increased, and inflationary trends generally prevailed, official policy may be recognized as helping to restrain the advance. The demand for funds is currently continuing at peak volume, with new issues by both government units and business concerns pressing the market. As long as these conditions prevail and unemployment remains at a practical minimum, policy is not likely to be reversed.

Recent Economic Changes

(Continued from page 5)

Of major significance was a sharp upturn this year in investments in corporate bonds and stocks by individuals in response to the record volume of securities offerings and higher yields available. During the second quarter, savings in this form continued at the high levels set in the first three months of the year, about three times greater than the $500 million of the second quarter of 1956.

Another important factor contributing to the increase in savings over the 1956 levels was the slower expansion of mortgage debt during the second quarter of this year. During this period individuals' mortgage indebtedness rose only $2.1 billion compared with $2.7 billion for the second quarter of 1956. The decline reflected a fall-off in new home construction activity. Other consumer debt increased $1.5 billion, the same as last year.

Lags in Government Action

(Continued from page 2)

act promptly and effectively to keep the forces of deflation in check. The pressures that determine action in this government work only slowly, with considerable lag. First, the situation has to develop to the point where the intensity of sentiment on one side of an issue overwhelms the counterbalancing pressure on the other. Then, the excitement and indignation have to be communicated through channels that cannot transmit them instantaneously, and after being transmitted they cannot immediately pierce the preoccupation of busy executives. Finally, there is a lag between decisions to move and the corrective actions that are undertaken.

The pressures and policies built up in a situation of this kind tend to continue in operation after the need for them no longer exists. Near the close of the last session of Congress, Senator Bush (R-Conn.) introduced a bill to amend the Employment Act of 1946. It is a seemingly innocuous amendment, which merely adds price stability to the other goal of national policy. In the act as it now stands, there are already a series of qualifications which could delay bringing it into play for the purpose of maximizing employment. Perhaps the amendment overlooks the fact that there are situations which call for anti-recession action even though the cost of living is still moving up — for example, in the early stages of a decline, when the consumer price index is still moving up by reason of lag effects alone. In any case, its main effect, if adopted, would be to set up additional obstacles to the effective functioning of government toward the goal the act was originally designed to promote.

Something of the same philosophy seems to be written into the Administration's *Mid-Year Review of the Federal Budget*. It seems to take for granted that the conditions recently experienced will prevail throughout fiscal 1958. There are statements that this will be "the third successive year in which the Federal Government will receive more in taxes and other revenue than it will spend" and "the fifth successive year in which new obligational authority is lower than revenues." The entire focus of the *Review* is on the importance of maintaining the surplus and reducing new obligational authority. The effects of these objectives are primarily to put anti-deflation policy in a strait-jacket. They tie the government's hands in respect both to cutting taxes and to accelerating expenditures under existing authority.

There will always be obstacles to any kind of government action, and for this reason alone, fears that anti-deflation policy might be carried so far as to produce all-out inflation may be considered pointless. When the time comes to combat deflation wholeheartedly, the government will no doubt act to mitigate the unfavorable effects of the decline. There is nothing in the entire picture, however, to encourage confidence in the idea that its efforts could or should try to bring any decline promptly to a halt.

It is to be hoped that the President's Anti-Inflation Committee will not become so bogged down in presentation of fixed points of view as to reach a doctrinaire stalemate. Such a stalemate would, of course, be broken in the event that the current recession accelerates. The committee's role may in that case turn out to be quite different from what was intended. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Watch Your Speed

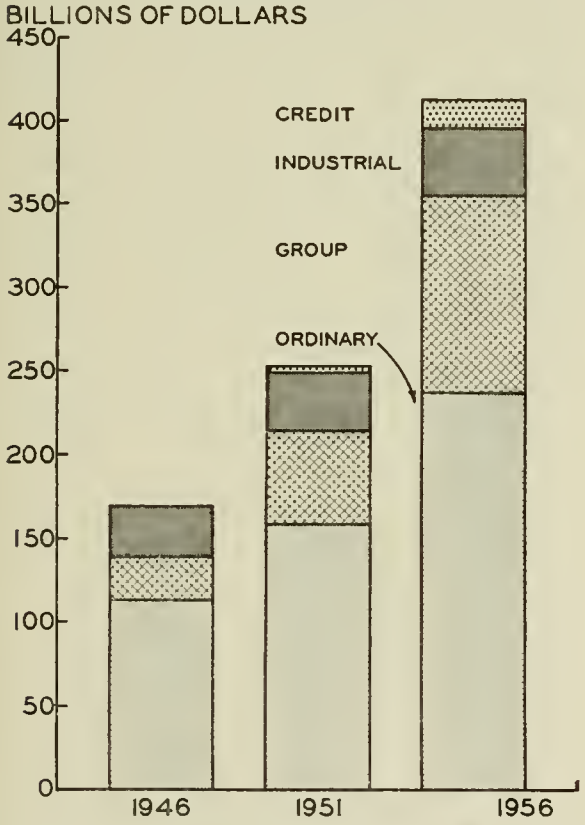
A new auto speed control is the Speedostat, which is produced by the Perfect Circle Corporation. The manufacturer states that through the use of a dial on either the steering column or the dashboard, the driver can select an appropriate speed, remove his foot from the accelerator, and maintain a constant speed. Application of pressure on the brake pedal cuts off the automatic operation. Speedostat can also be used as a conventional governor by selecting the desired speed and continuing to use the gas pedal. Although a 24-pound back pressure on the pedal warns the driver of the cruising limit, the pressure may be overcome in emergency situations. This device may be offered as optional equipment on some 1958 auto models.

Life Insurance

Life insurance in the United States set a new record in 1956 with 106 million policyholders owning policies with a total face value of $413 billion, an average of $7,600 per family. The Institute of Life Insurance states that this all-time high was nearly two and one-half times the amount owned in 1946, and about two-thirds more than that held in 1951.

A marked redistribution of policy types was recorded over the 11-year period (see chart). Of the four categories of life insurance — ordinary, group, industrial, and credit — ordinary policies accounted for 58 percent of the total coverage in 1956, a decline from 66 percent in 1946. The proportion of industrial insurance, a small-unit type of insurance paid for on a weekly or monthly basis, also declined over that period. On the other hand, group insurance expanded from 16 percent of the total to 28 percent. The issuance of policies to smaller groups — usually with a minimum of 10 members — in an increasing number of states has been one of the major factors in group growth. Credit insurance, covering loans in the event of death, rose from a fraction of 1 percent to 4 percent of the total.

LIFE INSURANCE IN FORCE IN THE UNITED STATES



Source: Institute of Life Insurance, *Life Insurance Fact Book, 1957.*

Consumer Financial Holdings

In early 1957, more than three-fourths of all spending units reported owning either liquid assets or marketable securities, according to the results of a survey conducted by the Federal Reserve System in cooperation with the University of Michigan Survey Research Center. Of these spending units, more than one-half had holdings of less than $1,000, whereas almost one-sixth reported $5,000 or more. Nearly all the owners had some liquid assets, but only 11 percent owned marketable securities.

A decided shift in the composition of liquid assets during the past decade was evident. The proportion of units holding checking accounts rose from one-third in 1946 to over one-half in 1957; the proportion having savings accounts also rose. On the other hand, those with savings bonds declined substantially — from two-thirds to one-third. These changes have reflected the increasing recognition of the convenience of the payment-by-check system; the increasing interest rates and dividends available on savings accounts, savings and loan shares, and credit union shares; and the redemption of savings bonds purchased during the war.

Electric Power Consumption

Sales of electric power in the United States jumped to 529 billion kilowatt-hours in 1956. This new high was a gain of one-tenth over the previous high in 1955 and nearly twice the amount recorded in 1950. Sharp increases in residential and industrial sales dominated the year-to-year changes (see table).

Class of service	Kilowatt-hours (billions)	Percent change 1955 to 1956
Total sales	529.1	+10.0
Residential	133.9	+11.1
Rural	11.1	+3.2
Commercial	87.7	+8.6
Industrial	275.7	+10.6
Street and highway lighting	4.7	+8.3
Other public authorities	11.0	+8.6
Railways and railroads	4.4	−3.3
Interdepartmental	0 6	+3.0

Growth of residential sales has been relatively uniform during the postwar period. With an estimate of over one million new customers and a continued boom in the sale of electrical appliances, residential sales are expected to reach 150 billion kilowatt-hours in 1957.

Industrial sales fluctuated more than residential sales, and although they increased less over this period, they maintained a two-to-one ratio. Railways and railroads, which accounted for nearly 10 percent of total sales in 1926, dropped to less than 1 percent in 1956.

LOCAL ILLINOIS DEVELOPMENTS

Seasonal rises highlighted Illinois business activity during August with most indicators recovering all of the seasonal loss suffered a month earlier. Coal production bounced back with the greatest force, jumping nearly one-fourth over July. Construction contracts awarded also recorded a strong gain of more than one-eighth.

August gains brought most indexes above their corresponding 1956 levels. Life insurance sales led the way with a 24 percent jump; business loans extended by leading Chicago banks gained more than 11 percent. Production of electric power, seasonally adjusted department store sales in Chicago, and bank debits for selected Illinois cities increased by 7 percent or more. On the other hand, petroleum production declined 28 percent. Coal production and manufacturing employment also failed to meet year-ago levels.

Industrial Roundup

Industrial gains in Illinois are reflected both by plant additions and by new plants. A plant addition is planned by the National Petro-Chemical Corporation in Tuscola. A new plastics compounding plant is planned for completion in mid-1958 and will boost production by one-fourth to 125 million pounds per year.

Indiana Standard Oil Company has scheduled the construction of two refinery facilities at Wood River. The two facilities are a fluid catalytic cracking unit with a capacity of 30,000 barrels a day and a crude oil distillation unit with a capacity of 67,500 barrels a day. Planned for completion in early 1959, the units will increase the Wood River installation's processing capacity by 30 percent.

Plans for a $600,000 propane-air gas plant to be used for domestic gas production in Champaign have been approved by the Illinois Commerce Commission. The Illinois Power Company stated that the plant, to be completed during the winter of 1957-58, will enable the company to provide service to a larger number of customers as well as to have an emergency gas supply on hand.

The Bagpak division of the International Paper Company, a new industry entering Litchfield, has scheduled the completion of its plant early in 1958. Covering about 60,000 square feet, the building is located on a 20-acre tract. Approximately 200 persons will be employed by the firm when it reaches full operation.

Driver Education Program

New life has been injected into driver education programs in Illinois high schools with the legislative approval of a bill raising the driver license fee from $1 to $3. The $3 million additional annual income from this fee will be used to form a reimbursement fund.

High schools offering a driver education course and meeting state standards are eligible for repayment of annual expenses up to $30 per student. In order to be considered eligible, a school program must be made available to any applicant in the district between the ages of 15 and 21. In addition, each pupil must have a minimum of six hours of behind-the-wheel instruction and 30 hours of class work.

By mid-September, about 200 schools had applied for inclusion in the reimbursement program. Although 347 schools offered some kind of course last year, some of these schools had only token programs. Eight or ten of the first 200 have never offered any type of course. Other schools have set up trial programs. If the driver training course appears to be workable during the first few months, the school may apply for reimbursement on the pupils it has taught.

Soil "Slick" Tests

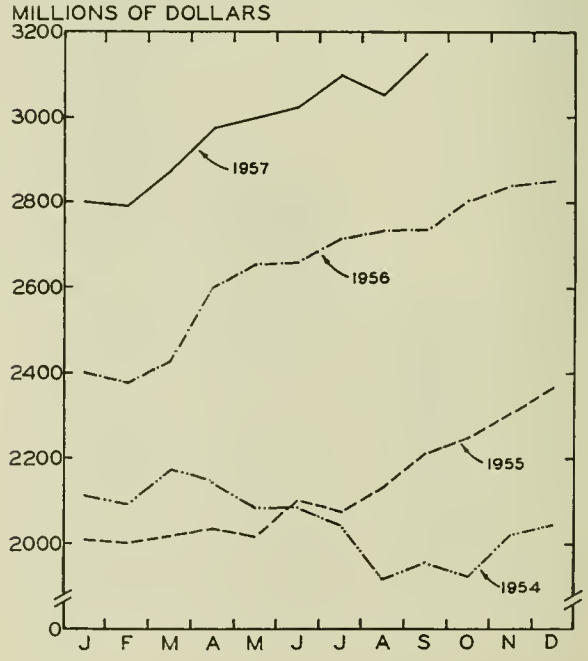
About a million acres of southern Illinois farm land has been classified as "slick" — that is, relatively poor to unproductive. These slick spots are areas in which the land is nonporous and resembles clay. They are powdery white and concrete hard when dry and slippery when wet. The spots can snuff out plant life — even weeds — leaving the area more subject to erosion.

In an effort to determine the cause of and cure for this problem that has plagued farmers for years, the state and Federal departments of agriculture surveyed the problem and took soil samples for analysis. Under the direction of Robert Lawson, state agronomist for the United States Soil Conservation Service, experimental study plots will be established in Washington County. The soil is known to be high in sodium sulphate, low in needed minerals, and almost void of organic matter. The findings of this study will be used as a basis for reclamation efforts which will include fertility treatments and attempts to increase organic matter.

New Record for Business Loans

Seasonal needs in addition to booming business pushed business loans at leading Chicago banks to a new high in September, over $3.1 billion. The total outstanding at midmonth was nearly 13 percent above the February low this year and 15 percent above the year-ago level. As may be seen in the accompanying chart, the 1957 rise is a strong continuation of the upward movement which began in 1955 and which contrasts strongly with the 1954 movements. The high level of consumer spending reflected by increased sales of all major retail groups over a year ago is one of the major factors behind the gains.

BUSINESS LOANS BY CHICAGO BANKS



Source: Federal Reserve Bank of Chicago.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$36,414[a]	1,176,256[a]	$532,049[a]		$15,529[a]	$12,424[a]
Percentage change from July, 1957	−16.2	+5.0	−5.9	+21	−5.2	+4.3
Percentage change from Aug., 1956	−19.4	+8.9	+4.2	+6	+6.8	+1.6
NORTHERN ILLINOIS						
Chicago	$23,829	874,297	$380,268		$14,179	$10,894
Percentage change from July, 1957	−21.3	+3.2	−7.7	+22	−5.5	+4.8
Percentage change from Aug., 1956	−32.1	+8.3	+2.5	+7	+7.0	+2.7
Aurora	$ 416	n.a.	$ 7,798		$ 64	$ 122
Percentage change from July, 1957	+5.1		−8.4	+14	+1.9	+15.4
Percentage change from Aug., 1956	−41.0		−1.3	+2	+5.6	−1.3
Elgin	$ 422	n.a.	$ 5,863		$ 42	$ 84
Percentage change from July, 1957	+50.2		−9.2	+27	−4.2	+34.3
Percentage change from Aug., 1956	−43.4		+8.1	+8	+2.7	+10.8
Joliet	$ 451	n.a.	$11,379		$ 83	$ 78
Percentage change from July, 1957	−39.5		−5.3	+13	+9.9	+6.8
Percentage change from Aug., 1956	−11.9		+4.4	+4	+7.1	+14.4
Kankakee	$2,533	n.a.	$ 4,832		n.a.	$ 50
Percentage change from July, 1957	+987.1		−3.5	n.a.		+32.7
Percentage change from Aug., 1956	+1,762.5		+9.9			+32.6
Rock Island-Moline	$ 915	25,845	$10,302		$ 103[b]	$ 125
Percentage change from July, 1957	−58.2	+10.5	−3.5	n.a.	−2.4	+11.9
Percentage change from Aug., 1956	−55.2	+17.3	+10.7		+14.2	−11.2
Rockford	$ 864	44,885[c]	$18,093		$ 184	$ 173
Percentage change from July, 1957	−33.4	+7.1	−7.8	+11	+5.5	+2.6
Percentage change from Aug., 1956	−28.7	+8.7	+8.7	0	+4.4	−0.2
CENTRAL ILLINOIS						
Bloomington	$2,131	8,900	$ 5,602		$ 68	$ 79
Percentage change from July, 1957	+1,207.4	+12.4	+4.2	n.a.	+1.6	+17.7
Percentage change from Aug., 1956	+617.5	+10.0	+11.9		+4.8	−5.3
Champaign-Urbana	$ 462	11,733	$ 8,352		$ 68	$ 75
Percentage change from July, 1957	−1.5	+5.4	+6.6	n.a.	−1.8	+4.3
Percentage change from Aug., 1956	−25.6	+16.3	+24.0		+10.8	+2.1
Danville	$ 125	13,056	$ 6,442		$ 50	$ 54
Percentage change from July, 1957	−90.4	+12.6	+3.3	+16	−0.2	−2.4
Percentage change from Aug., 1956	−34.6	+18.0	+8.4	−3	−6.8	−2.7
Decatur	$ 779	34,405	$12,452		$ 119	$ 91
Percentage change from July, 1957	−40.3	+9.9	+8.2	+13[c]	+0.2	−3.0
Percentage change from Aug., 1956	−20.3	+11.4	+11.2	−3[c]	+7.9	+1.0
Galesburg	$ 282	9,288	$ 4,642		n.a.	$ 31
Percentage change from July, 1957	−31.2	+8.8	+1.4	n.a.		+0.4
Percentage change from Aug., 1956	−16.3	+8.4	+16.1			+16.9
Peoria	$1,671	61,432[c]	$16,957		$ 226	$ 210
Percentage change from July, 1957	−46.4	+17.3	−7.6	+29[c]	−7.5	+3.0
Percentage change from Aug., 1956	−69.6	+13.9	+7.4	−3[c]	+2.6	+5.5
Quincy	$ 305	13,310	$ 5,092		$ 41	$ 54
Percentage change from July, 1957	+46.6	+36.9	−1.2	+32	−8.6	−2.9
Percentage change from Aug., 1956	+54.8	+30.9	+7.2	0	+7.6	+7.2
Springfield	$ 898	40,094[c]	$14,802		$ 116	$ 188
Percentage change from July, 1957	+100.4	+1.9	+10.5	+20[c]	−6.2	−19.8
Percentage change from Aug., 1956	+4.9	+2.5	+9.6	+1[c]	+1.0	−7.1
SOUTHERN ILLINOIS						
East St. Louis	$ 116	14,617	$ 9,307		$ 147	$ 52
Percentage change from July, 1957	−58.7	+13.2	−0.3	n.a.	−5.2	−33.1
Percentage change from Aug., 1956	+6.4	+0.8	+4.9		+3.0	+1.7
Alton	$ 55	15,651	$ 4,988		$ 38	$ 28
Percentage change from July, 1957	−46.6	+10.4	+1.3	n.a.	−6.4	+0.1
Percentage change from Aug., 1956	−76.6	+3.4	+4.5		−7.1	+0.9
Belleville	$ 160	9,743	$ 4,879		n.a.	$ 36
Percentage change from July, 1957	−23.8	+14.6	+1.7	n.a.		−7.7
Percentage change from Aug., 1956	−51.7	+16.2	+8.5			−6.7

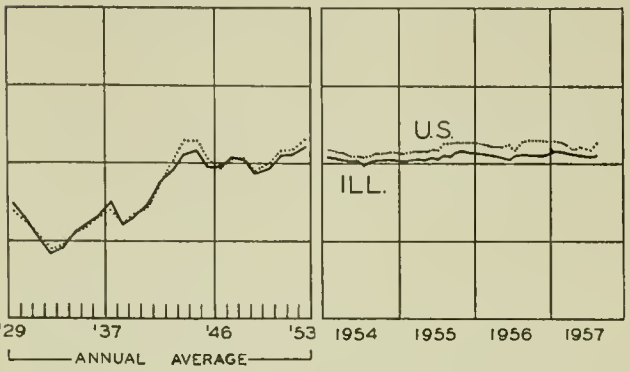
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for July, 1957. Comparisons relate to June, 1957, and July, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending August 23, 1957, and August 24, 1956.

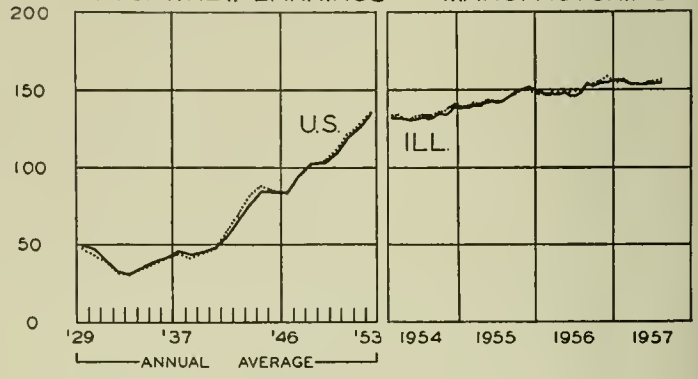
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

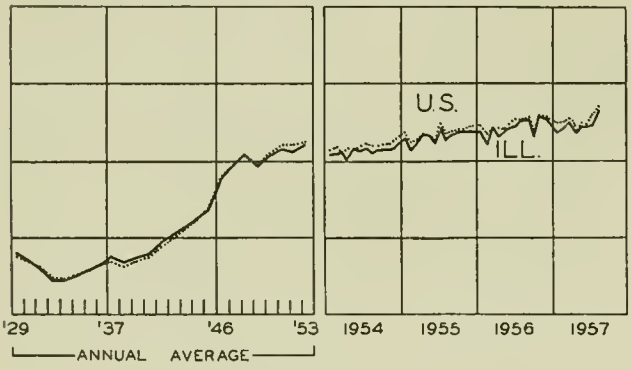
EMPLOYMENT–MANUFACTURING



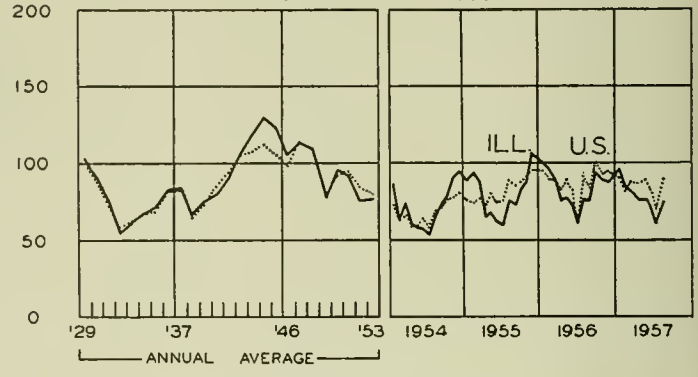
AVG. WKLY. EARNINGS — MANUFACTURING



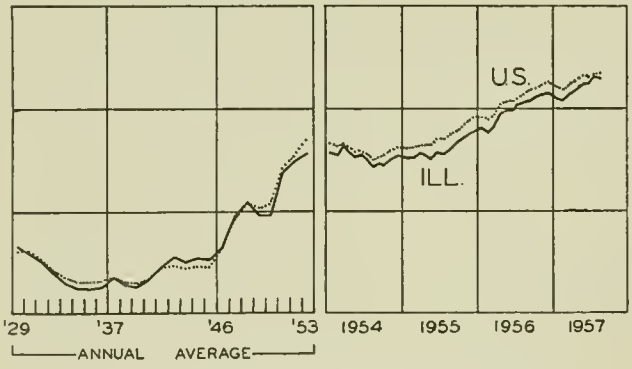
DEPARTMENT STORE SALES



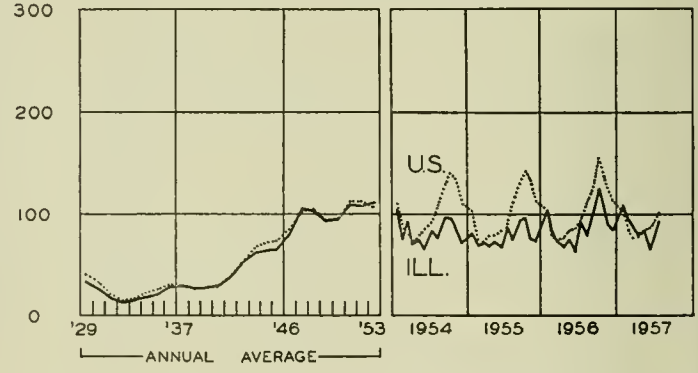
COAL PRODUCTION



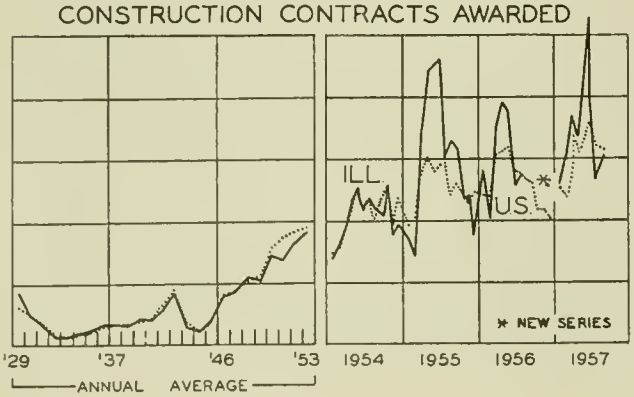
BUSINESS LOANS



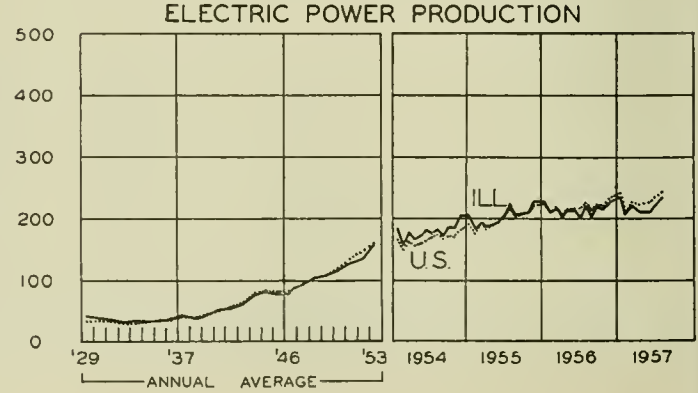
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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VOLUME XIV | NOVEMBER, 1957 | NUMBER 11

HIGHLIGHTS OF BUSINESS IN OCTOBER

Most of the sensitive business indicators were on the "bearish" side in October. Although the new low in the stock market on October 22 was followed by the largest single-day gain since November 14, 1929, the rally did not continue and the average for the month was the lowest for the year. Department store sales fell below the corresponding month of last year for the second consecutive time and were well down from September. Carloadings ran about 10 percent under October, 1956. Steel output was lower than in September and about 17 percent below October last year. Production of paper, bituminous coal, petroleum, and lumber were down from the corresponding period in 1956 and electric power output was off from September. Insured unemployment was running more than 30 percent above the like period last year at about 1.3 million.

Auto sales, up 9 percent from October a year ago as dealers cut prices on 1957 models to clear the way for higher-priced 1958's, and paperboard production, running about 7 percent above last year, were again the brighter spots in the picture.

Construction Outlays High

Although October construction outlays of nearly $4.5 billion were down seasonally from the September record of $4.6 billion, they exceeded the previous October record of $4.3 billion and reinforced expectations that the total for the year would reach $47 billion. The total for the first 10 months of the year amounted to $39.4 billion, 2 percent above the corresponding 1956 figure.

Outlays for private construction in October were just over $3 billion, down about 3 percent from September and about the same as a year ago. Public utilities construction set a new record and went over the half-billion dollar mark for the fifth consecutive month. Spending for offices and warehouses was at a record high for October. Outlays for new residential construction were up slightly from September, after allowance for seasonal factors, but were 6 percent below last October. Industrial construction continued the downward movement which began in April, but was still 5 percent above the month last year.

Public construction outlays were down to $1.4 billion in October from the September record high of nearly $1.5 billion. However, the total for the first 10 months was up 8 percent from the comparable period of 1956.

Construction contracts awarded in September were 2 percent over the year-ago figures. Contracts for new housing accounted for the most of the gain, an increase of 10 percent over September, 1956, carrying the residential total to $1.2 billion. Nonresidential building awards were only slightly ahead of the corresponding month last year and heavy engineering contracts fell 11 percent below. In the latter group electric power and light projects were off 55 percent, bringing the nine months' total for these 13 percent below the like period in 1956.

Manufacturers' Sales, Orders Down

Manufacturers' sales, after seasonal adjustment, were down about $400 million from August to September. The decline was evenly divided between durable and nondurable goods industries, as was the adjusted sales total of $28.2 billion. Compared with September, 1956, sales were up 4 percent, but price increases accounted for this rise.

New orders received by manufacturers declined 2 percent below August to $26.8 billion on a seasonally adjusted basis. Most of the decline from August came in the durable goods industries. Orders received by machine tool builders dropped to $28.9 million, the lowest volume for any month since April, 1950. They compared with $44.5 million for August and $78.5 million for September, 1956.

Unfilled orders were down $1.5 billion to $56.3 billion, $7.3 billion below September last year.

The book value of manufacturers' inventories in September was off by $100 million from August to $54.1 billion, after seasonal adjustment. Although the total was still about $3 billion above the corresponding 1956 month, the decline from August suggests that inventory accumulation by manufacturers may have come to an end.

Nonfarm Employment Weakens

Employment in October rose to 66 million, about 300,000 workers above last month. The increase was nearly all concentrated in farm employment, which had slumped in September because of bad weather.

Nonfarm employment, which normally rises in October, fell by 50,000. Factory payrolls declined for the tenth consecutive month after allowance for seasonal fluctuations. Steel works, foundries, and plants producing metal-working, electrical, and general industrial machinery were particularly affected by job reductions. Unemployment was about the same as in September at 2.5 million, although it normally declines at this time of year. In October, 1956, it was estimated at 2.1 million on a comparable basis.

"WAGE INFLATION" IN PERSPECTIVE · · · By Solomon B. Levine · · · Page 6

ILLINOIS BUSINESS REVIEW

Published monthly by the

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Crosscurrents in Housing

Home building has shown renewed strength in recent months. Seasonally adjusted housing starts rose to an annual rate of a million units in the third quarter, up about 7 percent from last winter's low. The gap from the same month a year earlier has narrowed steadily, to a two-year low in September.

This recovery movement was the net result of cross-currents influencing the rate of building in various ways. The underlying factors in the situation did not change substantially: The rate of family formation was relatively stable, and the over-all supply of houses in existence tended to expand relatively, though not enough to make a significant difference in a few months.

Hence, transitory factors dominated, strengthening the market for the time being.

Some Moves to Keep Building High

Complaints by builders against the tight money policy reaffirm its effectiveness as a restraint on home building. The recent experience suggests that most of this effect is attributable to the inflexibility of interest rates in mortgage lending. In conventional loans, where rates are more nearly competitive, there has been little restriction. Most of the decline since 1955 has been in government-insured starts under FHA and VA programs. The clincher for the inflexibility thesis is 1957 experience. VA loans, limited by statute to a rate of 4½ percent, continued down. FHA rates were raised, to 5¼ percent plus one-half of 1 percent for loan insurance and additions resulting from allowable discounts, and FHA starts made a good recovery, regaining the 1956 level in September. In the meantime, conventional starts had taken over the whole burden, running above 1956 through the early part of 1957, when both FHA and VA were making new lows.

Builders, taking this experience as their text, frequently hold that the whole problem can be solved by permitting higher interest rates on all mortgage loans. What is overlooked is that this merely tends to set one kind of restriction against another. The rate of interest is a cost with a direct impact on the monthly payments a family is required to make, and the longer the repayment period, the more important the interest charges become. Thus, although the market is immediately freed from the restriction of inadequate funds, it is subject to the restriction of higher price. In relation to limited means, this means that more buyers fail to qualify under the usual payment-to-income ratios, and over a longer period, building will not necessarily be stimulated.

During the past two years, the market has had to contend with rising construction costs as well as higher interest rates. Builders widely attempted to convert these adverse price movements into a temporary stimulus to sales, by advertising, for example, that "There is no better hedge against inflation than owning your own home."

A more definite aid to building took the form of making increased funds available in the secondary mortgage market. In the last session, Congress authorized over $1.5 billion of additional funds for FNMA operations, mainly mortgage purchases. Federal Reserve Chairman Martin, in his testimony on the proposal, pointed out that the benefits of such action tend to be lost in the subsequent reactions of money and capital markets, since the difficulty would be constantly re-created by the additional pressures placed upon those markets.

With respect to low-cost housing, the lenders of long-term funds unmistakably want good rates and guarantees too. They have consistently refused to make mortgage loans at rates below the competitive level even with the guarantees: There could hardly be any more definite indication that the housing now being produced under government programs would, without the guarantees, be uneconomic from their point of view.

Creating Uneconomic Housing

What is not so apparent is that a good deal of this kind of housing is uneconomic from the borrower's point of view also. As rates are increased, down payments reduced, and repayment periods extended, the burden of interest becomes inordinate. Recent actions put down payments at new lows and extend the term of monthly payments to 30 years. However, an increase in interest rate from 4½ to 5¼ percent just offsets an increase from 25 to 30 years in effects on the monthly payments required. Very few buyers seem to be aware of how little of the principal they will repay from the monthly payments required in the first 10 years of a 30-year mortgage at 5¾ percent, including the insurance premium.

There are two senses in which such a contract may be uneconomic: ability to make the scheduled payments and debt-asset position. For a great many buyers, current sources of income are not dependable for anything like a period of 30 years. Some do not understand their obligation and do not consider themselves liable in the event of default: They say, "I can always let them take the house back!" They may even be encouraged in this notion by the builders' salesmen.

If unemployment should rise substantially, the number who could not continue payments would be substantial. Experts in the field believe that mass foreclosures would have to be deferred under those conditions. Some suggest that a moratorium would be arranged. However, a moratorium — even without cumulating defaulted interest into principal — would not be satisfactory to many home buyers whose debt would be not only heavy in dollar terms but increasing in relation to a depreciating asset.

This point merges into the second uneconomic aspect of long-term loans with little or no down payment. During most of the repayment period, the buyer will owe more than the house is worth. Even assuming that new construction costs remain high and that straight-line depreciation is charged, the owner's equity will be less than his debt over most of the life of such contracts.

These calculations of equity based on assumptions of

(Continued on page 8)

LIVESTOCK PRODUCTION AND MARKETING

Illinois has long been a strategic center for the production and marketing of meat animals. It is one of a group of 12 Midwestern states that grow 51 percent of the nation's meat animal population, including 43 percent of the beef cattle, 73 percent of the hogs, and 32 percent of the sheep and lambs.

After the State's settlement, livestock production quickly expanded because animals could be fed the surpluses of corn which, at that time, could not be sold for cash. With the growth of railroads, the State's prestige as a meat producer was further enhanced by the emergence of Chicago as a railroad and meat processing center.

Livestock Production Today

The importance of the livestock industry to Illinois is reflected in the fact that 39 percent of the State's 1956 cash farm receipts of $1.9 billion came from the sale of meat animals. In all, Illinois ranked third in total number of livestock, with nearly 10 million head on its 176,000 farms. Of the nation's total livestock population of 178 million head last year, Illinois had over 6 million hogs and pigs, almost 3 million head of beef cattle, and three-quarters of a million sheep and lambs. The total value of the combined inventory of cattle (including milk cows), hogs, and sheep in Illinois on January 1, 1956, was $615 million, with cattle accounting for more than 70 percent of this total.

Illinois is the second-ranking state in holdings of hogs and seventh in beef cattle. With an average of 177 meat animals per square mile, Illinois has more than three times the national livestock average. There are about 120 hogs and pigs, 44 head of cattle, and 13 sheep and lambs per square mile. Nationally, the number of livestock on farms in 1956 was only slightly higher than the yearly average for the preceding decade. Illinois farmers, however, were able in 1956 to push the livestock population nearly 13 percent higher than their annual average for the preceding 10 years.

Corn-Fed Livestock

Most cattle operations are concentrated in the counties west and north of the Illinois River. The State's beef production takes three forms: (1) keeping beef cows to produce calves that are fed out for market; (2) feeding steers and heifers, most of which are shipped in from range states of the West; and (3) culling dairy cows and raising calves discarded from dairy herds.

Hog production, like cattle raising, is centered primarily in the heavy corn-producing counties of northwestern Illinois. In all, the State feeds more than 90 percent of its corn crop to livestock. Henry County was the nation's leading county in hog population in 1954, the year of the last *Census of Agriculture*. Illinois pigs and hogs usually are raised and "finished" for market on the same farms, although some feeder pigs from southern Illinois and from other states are shipped into the State's heavy corn-producing areas.

Numbers of sheep and lambs in the State are small; only one-sixth of the farms have these animals. Farms with sheep flocks are evenly distributed throughout the State, except in the dairy areas of northern Illinois.

Marketing Livestock

Since the mid-1800's the heart of America's livestock marketing system has been Chicago because of its location in the center of the greatest livestock-producing area, the network of railroads that meet there, and the specialized meat-packing facilities provided there. At first the individual railroads leading into Chicago had separate stock-handling facilities. But in 1865 these railroads collectively financed the Union Stock Yards and Transit Company, which has since served as a central point to handle stock moving into the city.

In the past few decades, there has been some decentralization from Chicago. This trend has resulted from the fact that two-thirds of the livestock are raised west of the Mississippi and eaten east of it. Packers have spread out so their plants may be nearer the farmers and ranchers, who have shown a preference for short truck or train hauls in marketing the live animals. As a result, other cities west of Chicago have been able to expand marketing activities.

Marketing of livestock begins when the animal is sold for the first time by producers. Livestock are sold on farms to local dealers or shipped by farmers to marketing centers, depending upon expected price, expenses of marketing, and nearness to market. Many types of agencies, such as dealers, truckers, railroads, slaughterers and packers, and wholesalers, provide the facilities and services needed to move livestock from the farms and finally the finished product to retailers. Because transportation is the largest single expense in marketing livestock, there has been a decided tendency to transfer livestock (primarily cattle) from Western ranches to Corn Belt feeder lots for fattening rather than ship proportionately greater loads of corn to the West. From these lots they can be shipped to large central markets, such as Chicago, within a matter of hours without appreciable loss of weight.

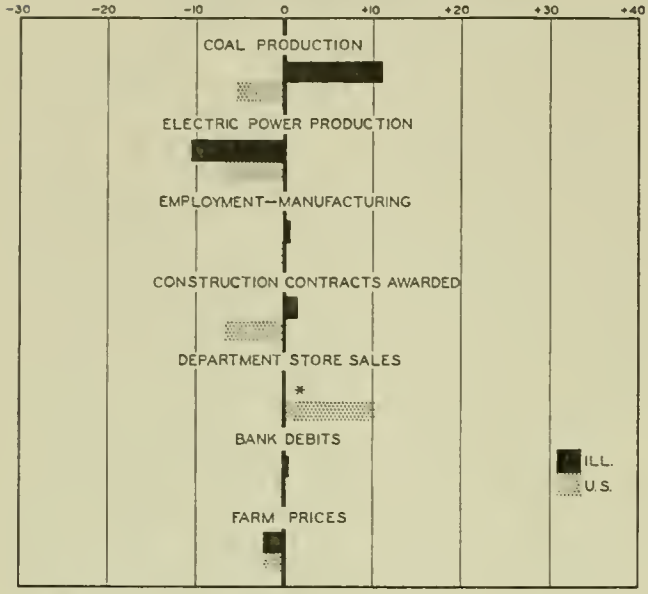
Livestock are slaughtered, processed, and packed in more than 380 meat plants in Illinois. These plants are diversified in character: some merely slaughter animals, some slaughter and process, and some simply process and specialize in other ways. Of the 380 meat houses, a little over 100 packing establishments handle about nine-tenths of the volume of meat products.

Despite seasonal fluctuations in marketing, meat consumption remains fairly steady throughout the year. Increasing use of domestic refrigerators and freezers, and locker plants have not only satisfied this consumer demand but have led to greater per capita consumption of meats. Last year the average American ate 167 pounds of meat compared with 142 pounds in 1950. Continued expansion of livestock production will be closely linked to the demand for meats. Although the growth of population will necessitate greater production, continued expansion will depend chiefly upon such variables as preference for meat in the basic diet and per capita consumer income.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1957, to September, 1957



* No change.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1957 (1947-49 =100)	Percentage change from Aug. 1957	Percentage change from Sept. 1956
Electric power[1]	209.4	−10.6	+ 2.7
Coal production[2]	82.1	+11.0	+ 6.1
Employment—manufacturing[3]	106.9	+ 0.7	− 2.1
Weekly earnings—manufacturing[3]	154.2[a]	+ 0.2	+ 4.1
Dept. store sales in Chicago[4]	125.0[b]	− 2.3	+ 5.0
Consumer prices in Chicago[5]	124.3	+ 0.2	+ 3.3
Construction contracts awarded[6]	307.8	+ 1.9	n.a.
Bank debits[7]	178.3	+ 0.4	+17.6
Farm prices[8]	84.0	− 2.3	+ 1.2
Life insurance sales (ordinary)[9]	261.3	− 7.7	+24.0
Petroleum production[10]	123.0	+32.2	− 0.4

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] August data; comparisons relate to July, 1957, and August, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	September 1957	Percentage change from Aug. 1957	Percentage change from Sept. 1956
	Annual rate in billion $		
Personal income[1]	346.5[a]	− 0.1	+ 4.7
Manufacturing[1]			
Sales	338.4[a]	− 1.4	+ 2.2
Inventories	54.1[a, b]	− 0.2	+ 8.0
New construction activity[1]			
Private residential	18.9	+ 0.3	− 4.1
Private nonresidential	18.4	− 0.7	+ 7.3
Total public	18.1	+ 2.0	+11.5
Foreign trade[1]			
Merchandise exports	20.1[c]	− 0.9	+ 9.3
Merchandise imports	12.5[c]	− 9.0	− 1.2
Excess of exports	7.6[c]	+15.9	+32.4
Consumer credit outstanding[2]			
Total credit	43.0[b]	+ 0.3	+ 7.3
Installment credit	33.2[b]	+ 0.3	+ 8.0
Business loans[2]	32.4[b]	+ 1.2	+ 9.0
Cash farm income[3]	n.a.		
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	144[a]	− 0.7	0.0
Durable manufactures	159[a]	− 1.9	− 1.9
Nondurable manufactures	132[a]	+ 0.8	+ 1.5
Minerals	129[a]	− 0.8	− 1.5
Manufacturing employment[4]			
Production workers	104	− 0.9	− 2.2
Factory worker earnings[4]			
Average hours worked	100	0 0	− 1.7
Average hourly earnings	156	+ 0.5	+ 3.5
Average weekly earnings	157	+ 0.5	+ 1.7
Construction contracts awarded[5]	290	− 6.8	+ 2.0
Department store sales[2]	128[a]	− 4.5	− 1.5
Consumer price index[4]	121	+ 0 1	+ 3.4
Wholesale prices[4]			
All commodities	118	− 0.3	+ 2.2
Farm products	91	− 2.0	+ 1.1
Foods	106	− 0.3	+ 2.4
Other	126	− 0.1	+ 2.3
Farm prices[3]			
Received by farmers	90	− 2.2	+ 3.4
Paid by farmers	118	0.0	+ 2.6
Parity ratio	83[d]	− 1.2	+ 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for August, 1957; comparisons relate to July, 1957, and August, 1956. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Oct. 26	Oct. 19	Oct. 12	Oct. 5	Sept. 28	Oct. 27
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,647	1,638	1,652	1,658	1,709	1,739
Electric power by utilities...mil. of kw-hr.	11,787	11,684	11,709	11,564	11,697	11,391
Motor vehicles (Wards)...number in thous.	124	93	57	34	61	126
Petroleum (daily avg.)...thous. bbl.	6,766	6,747	6,729	6,812	6,821	6,998
Steel...1947-49=100	119	120	122	123	122	145
Freight carloadings...thous. of cars	704	727	742	748	739	817
Department store sales...1947-49=100	127	128	132	127	130	128
Commodity prices, wholesale:						
All commodities...1947-49=100	117.7	117.7	117.6	117.5	117.7	115.6[a]
Other than farm products and foods...1947-49=100	125.6	125.7	125.7	125.6	125.7	123.6[a]
22 commodities...1947-49=100	84.5	84.6	85.2	85.3	86.2	90.1
Finance:						
Business loans...mil. of dol.	31,807	32,084	32,137	32,331	32,408	29,692
Failures, industrial and commercial...number	281	258	244	261	278	267

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for October, 1956.

RECENT ECONOMIC CHANGES

Housing Vacancies

The vacancy rate on houses for rent or sale increased slightly in the third quarter of 1957, according to preliminary estimates based on the latest Census Bureau sample. During the July-through-September period, about 2.4 percent of all dwelling units in the United States were vacant and available for rent or sale. Vacancies for sale, amounting to one-half of 1 percent of available units, were the same as in the previous two periods. Vacant units for rent increased from 1.8 percent of available units in the first and second quarters to 1.9 percent in the last three-month period. The over-all vacancy rate was down about four-tenths of 1 percentage point from the third quarter of last year, with the rate on units for rent absorbing most of the decrease.

Regionally, the South and West continued to have the highest over-all vacancy rate through the first half of 1957, with rates of 2.7 and 3.7 percent, respectively. Vacancies for rent within standard metropolitan areas increased during the third quarter, bringing the rate to 2.2 percent compared with 2.0 percent in the previous quarter. Outside standard metropolitan areas, vacancies maintained a 2.8 percent rate but were below the corresponding 1956 period when the rate was 3.2 percent

Gross National Product Up

The nation's production of goods and services rose to a seasonally adjusted annual rate of $439.0 billion during the third quarter. According to preliminary estimates made by the Council of Economic Advisers, all major components of GNP except net foreign investment and Federal spending on national security contributed to the $4.7 billion increase. The drop in national security spending accounted for most of the decrease in Federal expenditures on goods and services. Increases in state and local spending, however, more than offset the reduction in Federal purchases so that total government expenditures showed some advance during the quarter.

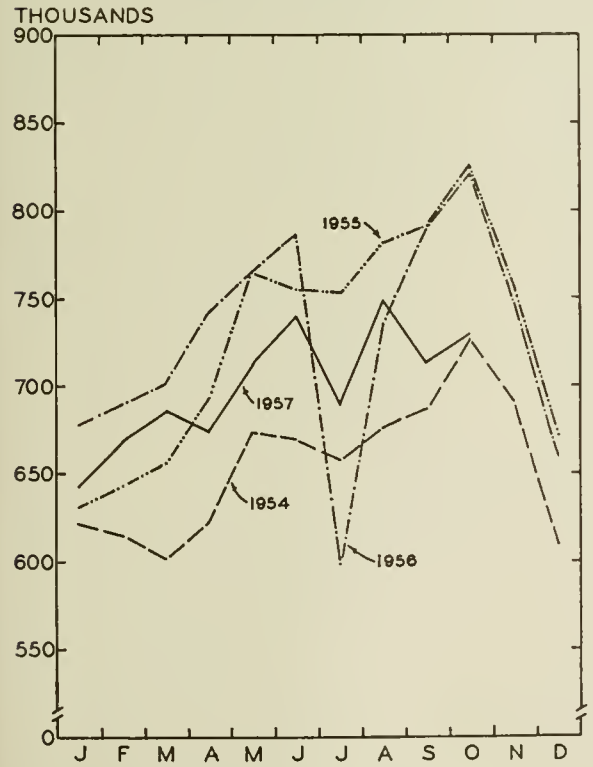
Although consumer expenditures for durable goods dropped off slightly, total personal consumption continued its steady upward movement. Fixed investment also showed a net gain during the quarter as new construction spending rose above the previous period's level of $32.7 billion.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	*3rd Qtr. 1957**	*2nd Qtr. 1957*	*3rd Qtr. 1956*
Gross national product	439.0	434.3	416.7
Personal consumption	283.2	278.9	268.6
Durable goods	34.7	35.0	33.0
Nondurable goods	142.5	139.1	134.4
Services	106.0	104.9	101.1
Domestic investment	65.5	65.0	65.5
New construction	33.0	32.7	33.2
Producers' durable equipment	30.5	30.5	29.0
Change in business inventories	2.0	1.7	3.3
Nonfarm inventories only	2.3	2.2	3.9
Foreign investment	3.2	3.5	2.0
Government purchases	87.2	86.9	80.6
INCOME AND SAVINGS			
National income	n.a.	358.1	344.5
Personal income	346.5	342.4	328.7
Disposable personal income	303.0	299.5	288.8
Personal saving	19.8	20.6	20.3

* Preliminary estimates by Council of Economic Advisers.

FREIGHT CARLOADINGS
(Weekly averages)



Source: Association of American Railroads.

Freight Carloadings

The sharpest decline of the year, about 13.8 percent from the corresponding 1956 week, was featured in the latest report on revenue freight carloadings by the Association of American Railroads. Loadings for the week ended October 26 amounted to 703,688 cars, about 113,000 cars below the same week last year. The latest drop extended to 11 the number of consecutive weeks in which loadings have trailed behind comparable year-ago figures.

For the month of October, loadings averaged about 730,000 cars a week compared with 837,000 cars in October last year. As shown by the accompanying chart, loadings in 1957 have been running well below both of the previous two years with the only major exception being due to the midsummer steel strike in 1956. On a cumulative basis, loadings for the first 10 months of 1957 have amounted to about 30.1 million cars, the lowest volume since 1954 and a drop of 1.4 million cars below the 1956 figure for the corresponding period.

Shipments in all product classes except ores shared in the decline from 1956. The 12.5 percent increase in ore shipments, however, can be traced to the exceptionally low 1956 volume during the strike period. Large cutbacks occurred in the shipments of livestock, 24.6 percent; forest products, 13.8 percent; and merchandise in less-than-carload lots, 9.2 percent. Probably most significant, however, was the reduction of 6.0 percent in the 10-months' total for the miscellaneous class, which includes, among other things, all manufactured goods.

"WAGE INFLATION" IN PERSPECTIVE

SOLOMON B. LEVINE, Associate Professor of Labor and Industrial Relations

Recurring inflation has characterized the economy for the past dozen years. A steep rise from 1946 to 1948 lifted consumer prices almost 30 percent. A 10 percent spurt followed in the 1950-52 period. A third advance, which began in June, 1955, and only now appears at its end, has raised the consumer price index almost another 6 percent. Today, the CPI stands at a level half again as high as it did when wage-price controls were terminated more than eleven years ago. It is unlikely, moreover, that we have seen the last of frequent inflationary movements. Despite intervals of price decline (1948-50) and of relative price stability (1952-55 and, seemingly, the period now immediately ahead), an average annual increase in the consumer price level of 2 or 3 percent commonly is predicted for the next decade or two.

Prolonged depression in the 1930's so thoroughly cued the economy to the dangers of *de*flation that few analysts expected to be preoccupied with *in*flation as a major economic problem of the postwar years. How to cope with rising prices that seem inevitably associated with an expanding full employment economy has been perplexing and has given rise to sharp differences of opinion. There have emerged numerous conflicting views of the "causes" of inflation and competing proposals for their remedy.

The most recent price upsurge served to crystallize the diverse positions that are taken to explain the postwar inflations. Generally, the arguments revolve around three principal contentions: (1) the growth of aggregate government, business, and consumer demand, (2) the ubiquitousness of the "administered price" system, and (3) the pressure of rising money wage rates on costs. Each causal analysis of the inflation problem tends to focus on one or another of these points and, in accord with the position taken, offers a distinct set of suggestions for appropriate public policy. Of the three, however, the third has been singled out for greatest attention during the last year or so. As a result, it has been fashionable to label the 1955-57 price advance as "wage inflation" and to predict that future inflationary movements will be attributable largely to wage pressures.

Aggregate Demand as a Cause of Inflation

As long as inflation develops as an aftermath of war, aggregate demand theory most readily explains rises in the price level. In its simplest terms, this analysis shows how long pent-up demands for goods and services, once released, sustain splurges of spending that rapidly exceed the capacity to produce. Swollen money supplies, created by staggering wartime government deficits, hasten the inflationary spiral. Prices leap upward; wages follow quickly behind.

The post-World War II and Korean War inflations, of course, are prime examples of the process. For periods such as these, it is widely agreed that the most effective remedies are monetary and fiscal policies which tighten the money supply and reduce effective demand, provided they are judiciously applied so as not to lead the economy into a tailspin of deflation and unemployment. Essentially these measures, in reverse, are the same as those relied upon for lifting the economy from a recession. A reserve weapon, also frequently advocated, is direct control over wages and prices, as exercised, for example, during the Korean conflict. However, during peacetime, direct restraint of the mechanisms through which prices and wages are adjusted is considered of secondary importance to the indirect monetary and fiscal approach.

The nature of the "inflation" of the last two years nurtured doubts about the aggregate demand analysis. Measures prescribed by the theory to maintain price stability appeared to have less of an effect than expected. During the two-year period, the government achieved budget surpluses, the Federal Reserve and Treasury clamped down tightly on the money supply, unemployment tended upward with the growth of the labor force, and profit margins shrank — all of which are supposed to contribute to price stability when inflation threatens. Nevertheless, consumer prices relentlessly moved upward. Even though the rate at which the price rise proceeded was moderate, that it continued over at least 27 months made many impatient with the aggregate demand analysis and signaled a search for alternative strategies to bring the inflationary movement to a halt.

Monopolies Push Prices Up

Proponents of the "administered price" and "wage inflation" schools of thought point to institutional factors which demand theory does not specifically treat to explain the steady advance in the CPI. Common to both groups is the view that monopoly elements in the economy virtually make the difference between inflation and price stability; that is, while the monetary and fiscal tools offered by the aggregate demand approach may be adequate for dealing with sharp or gross increases in the price level such as those experienced in 1946-48 and 1950-52, for more gradual and selective inflationary movements they are less certain to work or will finally work only after agonizingly long experimentation. From both these viewpoints, an inflation, however moderate, which arises from tenacious, unrestrained monopoly is likely to be so prolonged as to pose a serious threat to equitable income distribution and long-run economic expansion.

Beyond this point, the two analyses part company over which type of monopoly is most responsible for the result. "Administered price" adherents see the evils of inflation as inherent in price-setting institutions that hold sway in both commodity and labor markets. They tend, however, to lay chief blame for inflation on "monopoly power" in the hands of major corporations. Because of lack of competition in markets for a wide variety of strategic consumer and producer goods, these companies allegedly are able to set prices with little regard for conventional demand and supply pressures. Accordingly, even though they tend to make upward price adjustments only at infrequent intervals, they maintain increases, once made, for indefinite periods, thereby unduly extending the inflationary movement.

"Administered price" analysts argue that it has been just this type of price behavior that was predominant during the recent inflation. Even though competitively determined prices may have remained stable or actually may have declined, the weight of increased "administered prices" is believed to have been sufficiently great to produce and sustain the upward drift. Corrective policy implied in the analysis, of course, is to break down barriers to competition in order to adjust supply and demand. While this solution would eliminate "administered" wage rates in labor markets, as well as "administered prices" in commodity markets, the latter are considered of first

importance because of their immediate impact upon the consumer price level.

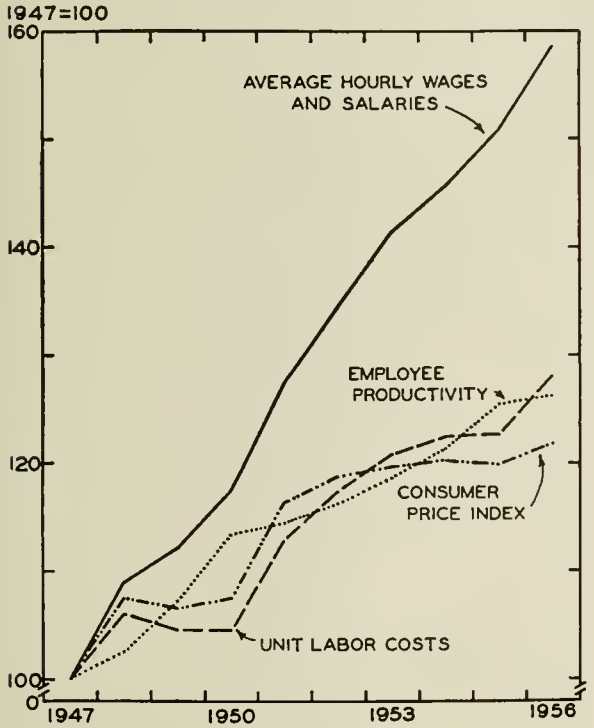
The Pressure of Rising Labor Costs

Those who believe that the "real" culprit is "wage inflation" focus upon wage-, rather than price-, setting institutions. They deny that either the aggregate demand theory or the "administered price" theory has much validity for the type of inflation we have just experienced. Like the "administered price" group, they feel that monetary and fiscal restraints went about as far as they could have gone safely and, even then, proved inadequate to the task of keeping prices from rising.

However, the "wage inflation" school rejects the contention that the crucial factor lies in "administered prices" of commodities. These analysts claim that the "administered price" system is far less formidable than alleged; that, in actuality, "administered prices" are rare and, even where they do exist, they rose modestly in comparison with many market-determined prices. In support of these points, they cite the almost imperceptible difference in the average wholesale price levels of today and a year ago. Such being the case, in their view, the critical monopoly elements must reside in the labor markets.

The key point of the "wage inflation" group is the unrelenting pressure of increasing wages upon costs. Whether prices are administered or set by market forces is considered irrelevant. In either case, it is asserted that, as shown in the accompanying chart, wage rate increases have so outdistanced productivity gains in the private nonagricultural sectors of the economy that in order for business firms to recover their unit costs of production they have been forced to raise prices. Even then, consumer prices have not increased as fast as unit labor costs. As evidence of a profit "squeeze," the analysis shows that, in the face of almost no productivity rise in the economy in 1956 and only an apparently slight improvement so far in 1957, labor's share of the national income has continued to advance, reaching a level of almost 70 percent at present, or 5 percentage points above 1951.

CONSUMER PRICES, PRIVATE NONAGRICULTURAL WAGES, AND PRODUCTIVITY



Source: Bureau of Labor Statistics.

"Wage inflation" theorists place main responsibility for the recent inflation upon trade union collective bargaining practices. Especially culpable is the use of the strike threat not only to force up basic wage rates but also to expand labor compensation to include numerous "fringe" benefits virtually unheard of a few years ago. In addition, trade union rivalries are considered the source of "pattern" bargaining which, it is asserted, tends to ignore intercompany and interindustry differences in productivity, costs, and profits. The "wage inflation" group, therefore, sees the solution to moderate but prolonged price rises in curbing the power of unions through a succession of steps: appealing to union leaders to exercise self-restraint in wage demands, urging employers to resist union demands, calling for application of antitrust laws to union activities, and, finally, proposing legislation to control wage increases and, if necessary, union representation rights.

Questions About the Wage Inflation Thesis

Opponents of the "wage inflation" position take issue with its assumptions regarding wage-cost-price relationships and the pivotal role of collective bargaining in the economy. They admit that wage rate increases, including "fringe" benefits, may have outdistanced productivity gains in the recent period. (See chart.) But they point out that wages lagged behind both productivity and consumer prices taken together at various earlier stages in the postwar years and that probably, on balance, the rates of advance have been about equal. In other words, they contend that the time-span being dealt with is too short to make any really meaningful comparisons between wage rates, productivity, costs, and prices, all of which are difficult to measure in any case.

Furthermore, they argue that the pressure of wage rate increases does not need to be translated into price rises. From 1952 to 1954, it is pointed out as an example, wage rates continued upward, but prices remained stable. Even if wages do rise faster than productivity, some contend, price increases are not necessarily justifiable so long as wages do not absorb all of the productivity gains. Others even go beyond this point by claiming that a disproportionately large share for labor is desirable in order to "correct" prior patterns of income distribution and to maintain economic stability.

Aggregate demand theorists, in particular, reject the assumption that collective bargaining in key labor markets calls the tune for wage movements throughout the economy. These opponents of the "wage inflation" analysis doubt that organized labor as a whole exerts significant pressure because it participates in setting wages for only one-fourth of the labor force, a minor segment, in which, moreover, sizable groups have relatively little bargaining power. Even more convincing evidence, they state, is that during the postwar period wage rates have gone up far more rapidly among unorganized workers, especially in service and white-collar occupations, than among the unionized. This probably reflects strong employer demands for types of labor skills in short supply — not trade union bargaining power. Unions may be effective in raising wages by closing wage differentials at the interpersonal and interplant level, but it is doubted that they exert as much leverage as market competition in affecting occupational, industrial, and regional wage relationships.

Long Run Vs. Short Run

The conflict of viewpoints summarized above needs to be looked at from a long-run, as well as from a short-run, point of view. Analysis of secular price movements, say, over the next two decades, has to consider a wide variety of pressures, either inflationary or deflationary. Growing population, increasing urbanization and suburbanization, new and more complex technologies, continued foreign dependence on military and economic assistance, shifts in production toward services and specialized commodities, and so forth are bound to make heavy demands upon the economy at the very time that it will suffer from acute labor shortages, lack of desired skills, and depleted raw material supplies. Such a combination of circumstances undoubtedly will be inflationary, and the tendency toward inflation will be strengthened so long as there is continuing popular support for public policies of full employment, high farm income, strong unionism, and industrial harmony. Even if the economy continues its historic trend of increasing productivity by 2 or 3 percent a year, it may prove unrealistic to hold wage increases to this rate.

On the other hand, the long run also has deflationary aspects. Prospects of increasing competition among goods and services, new research discoveries and developments, a better-trained, better-educated, and healthier labor force, improved work incentives and managerial techniques, expanding mass markets, and wiser use of growing funds of savings are some of the possibilities which hold out hopes for restraining inflation. Also, increased skill in applying fiscal and monetary policies themselves could be significant for controlling price increase, unless, of course, warfare makes this impossible. If these deflationary factors are not sufficient to stabilize prices, at least they may provide means for deciding how much inflation to tolerate short of direct controls.

While the long run is likely to have an inflationary bias, in reality the economy at any moment is apt to be precariously balanced between inflationary and deflationary forces. Increasingly, the economy is assuming broad-scale, fixed commitments to achieve high-level employment, to assure widespread personal security, and to support the survival and growth of complex institutions — values that tax its capacity to produce. At the same time, the dynamics of the society continually foster demands for change and adjustment. The cost of catering to both sets of forces may well be spasms of inflation and deflation. To avoid such short-run fluctuations, direct governmental controls may be tempting, but they are likely to be an alternative which a free nation at peace will find unpalatable even if the people complied with them.

In terms of the long-term socio-economic outlook, an inflation like that of the past two years can easily be exaggerated. Because of the welter of long-run pressures supporting inflation in the economy, it is not surprising that in a given brief period certain select elements appear to be thrusting prices upward. While the debates over the causes of short-run inflation certainly contribute to clarifying secular analysis, the discussion of whether a price rise is due to "wage inflation," or for that matter to "administered prices," tends to concentrate too heavily upon factors which at the moment happen to lie close to the surface and too little upon basic underlying forces. In the next period, deflationary pressures could take over, as may well prove to be the case in the months ahead, and the importance of "wage inflation" and "administered prices" may be quickly relegated to the background.

Crosscurrents in Housing

(Continued from page 2)

sustained values and customary write-offs are rather optimistic. Building values do not derive from costs alone. Costs are sticky, but surpluses of housing may develop and depress prices of existing houses. In depression, values may fall sharply. Moreover, depreciation is likely to be faster than straight-line even if houses are fully maintained. When home owners fail to maintain the houses in good condition, whether because they lose the ability or the incentive to do so, values tend to collapse.

These contingencies help to explain the necessity for the government guarantees. There would hardly be any low-cost market at all without them, and the builders' pleas for making interest rates "competitive" contemplate guarantees at the higher rates. That these pleas are not readily granted is also understandable. Potential difficulties for buyer as well as for government explain both the reluctance to raise rates on veterans' loans and the debate on how high a rate of interest it would be proper for the government to guarantee.

Relief from Market Saturation

While FHA building was getting a shot in the arm during recent months, another development was perhaps even more important in strengthening the housing market. Vacancy rates actually declined from the latter part of 1956 to early 1957, and this stimulated some additional building of rental units in the summer of this year.

This development appears to have derived largely from an extraordinary spurt in migration of families from farms to cities. As a result, the continued exodus of former city dwellers to the suburbs was more than offset. The migrants from rural areas often moved into quarters that had been considered substandard by those leaving them. The newcomers did not find them substandard because the quarters they had left were even less satisfactory. Some of the unoccupied units could then be regarded as dilapidated and be written out of the housing supply, helping produce the reported decline in vacancies.

There appear to have been two main components in this wave of migration to the cities. The first consists of older farm people who became eligible for social security pensions for the first time in the latter part of 1956. Many of these took the opportunity afforded by a steady if small cash income to get away from farm life. After this initial wave, the formation of such households in the city cannot be expected to continue at anything like the same rate.

The other major component is the normal flow of rural workers into the industrial labor force during periods when activity is high enough to offer job opportunities to all. This is a more definitely reversible flow. After industry no longer needs the expanded labor force, there will tend to be a movement back to the farm. Just when such a movement might occur is difficult to evaluate.

Considered by itself, the housing picture may be viewed optimistically. Some favorable factors are only temporary in character, but nevertheless may be durable enough to have continuing effects over an extended period of months. However, housing cannot be considered by itself, apart from the context of the broader economic picture. With a weakening of over-all income and employment, the decline in building is almost sure to be resumed. In fact, at the present stage of the cycle, the further reaction of any general business recession on housing is likely to be severe. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Dual Role for Trucks

Standard dry-cargo trailer trucks can now haul wet cargoes with the aid of Sealdtanks, collapsible rubber cylinders manufactured by the United States Rubber Company. The first tubes in production are 35 feet in length with a capacity of 3,800 gallons. When empty, the tubes may be rolled into half-ton packages with a diameter of 2 feet and a length of 7.5 feet.

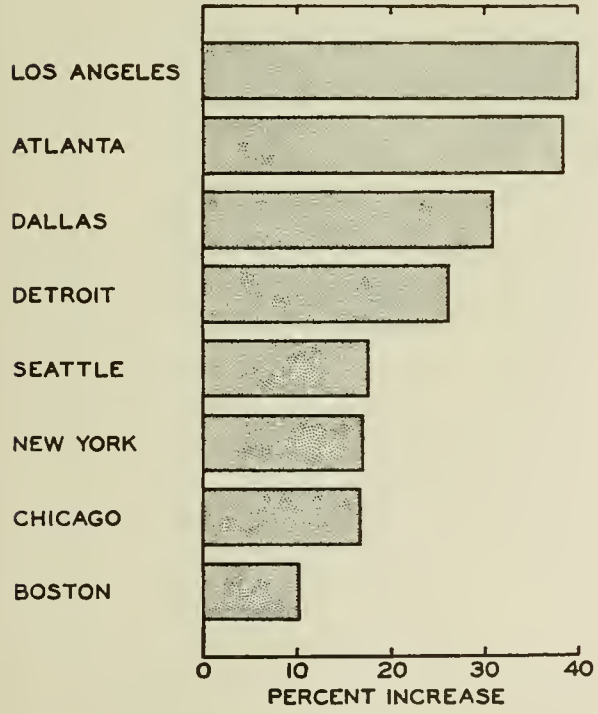
The bags are made of four-ply rubber-coated rayon tire fabric with an outer surface of neoprene for weather and oil resistance. Metal fittings seal the ends of the cylinders. Inner linings are varied to suit the specific cargo types, which range from acids to oils. Disposable polyethylene bags serve as liners for edible liquids.

At present, only truck bags are on the market. However, the manufacturer plans to expand the line of rubber tubes to include a unit with a capacity of 6,500 gallons for railroad car use and units with capacities of 10,000 to 20,000 gallons for plant and warehouse storage.

Housing Inventory — 1956

Net increases between April, 1950, and December, 1956, in the number of dwelling units in selected standard metropolitan areas ranged from 10 to 40 percent according to preliminary results of the 1956 national housing inventory conducted by the United States Bureau of the Census. As may be seen on the accompanying chart, Los Angeles led the way with a gain of 40 percent. Of the eight selected areas, Boston registered the smallest growth in dwelling units, and Chicago was in seventh place with a 17 percent jump. A special inventory of the city of Chicago as compared with the metropolitan area indicated that the city did not share proportionately in the growth experienced by the whole area. The city's net increase was slightly more than 5 percent.

CHANGES IN HOUSING INVENTORIES OF SELECTED STANDARD METROPOLITAN AREAS, 1950 TO 1956



Source: Bureau of the Census.

Net increase data were obtained by an examination of the components of change. Units were added through new construction, conversion, and other sources; units were lost through demolition, merger, and other means.

Compare with Care

The Statistical Research Service of the F. W. Dodge Corporation has cautioned its subscribers to interpret with care significant county gains in residential construction between 1956 and 1957. In addition to expanding its construction series from 37-state to 48-state coverage in 1957, Dodge changed the method of compiling statistics for the residential series. As a result of these changes, previously published 1956 figures were revised to provide greater comparability between 1957 and 1956 data. The revised data are satisfactory for comparisons on the total 37-state, regional, and state levels; however, because of scattered reporting omissions during 1956 of building permit data, there are a few counties where comparisons would be incorrect. The Dodge Statistical Research Service has listed 26 counties where the relative residential building figures for 1956-57 appeared to be distorted by more than 20 percent. Champaign County, Illinois, was included in this listing.

Nursery Survey

Sales of eight classes of nursery products grown by commercial producers in 1956 amounted to over $32 million in the five states selected for a pilot survey by the Crop Reporting Board of the United States Department of Agriculture. The number of survey states will be increased from five — Florida, Illinois, Iowa, Colorado, and California — to ten for a new production survey in 1958. The primary objective of these surveys is to obtain further information concerning the operations of the nursery industry in order to improve current production and marketing practices.

The eight classes of nursery products included in the pilot study were conifers, broad-leaved evergreens, deciduous shade trees, deciduous shrubs, rose plants, deciduous fruit and nut trees, grape vines, and citrus and subtropical fruit trees. The largest proportion of total sales — 23 percent — was recorded for broad-leaved evergreens. Rose plants, conifers, and evergreens accounted for three-fifths of total sales. Grape vines, the smallest seller, accounted for less than 1 percent.

Computer Booklet

How the Computing System Works for You is the first booklet to be published in an educational series designed by Remington Rand Univac to introduce the high-speed, electronic computing system. Although the various large-scale electronic computing systems in operation today differ in certain respects, they function according to the same basic principles. This 36-page booklet, written in a nontechnical style, explains one system, the Univac Data Automation System. Copies of this booklet are available upon request from Remington Rand Univac, 315 Fourth Avenue, New York 10.

LOCAL ILLINOIS DEVELOPMENTS

With a few notable exceptions, Illinois business activity for September showed little change from August. Petroleum production jumped nearly one-third and coal production rose more than one-tenth. On the other hand, electric power production and life insurance sales dropped 11 and 8 percent respectively.

Year-ago comparisons indicated gains of 24, 18, and 14 percent respectively for life insurance sales, bank debits for selected Illinois cities, and business loans by leading Chicago banks.

Contributing Employers — 1956

The number of employers subject to unemployment insurance contributions jumped nearly one-fourth in 1956 to 91,100. Approximately 85 percent of these new employers were added as the result of the change in coverage in the Illinois Unemployment Compensation Act effective January 1, 1956. This change brought all employers with four or more workers within the act, whereas previously only those with six or more were covered.

Employer contributions rose sharply from $52 million in 1955 to $84 million in 1956. The increased amount of wages subject to contribution and the increased contribution rate were the causes of the increase. The average contribution rate during 1956 was 1.1 percent of taxable wages as compared with seven-tenths of 1 percent in 1955.

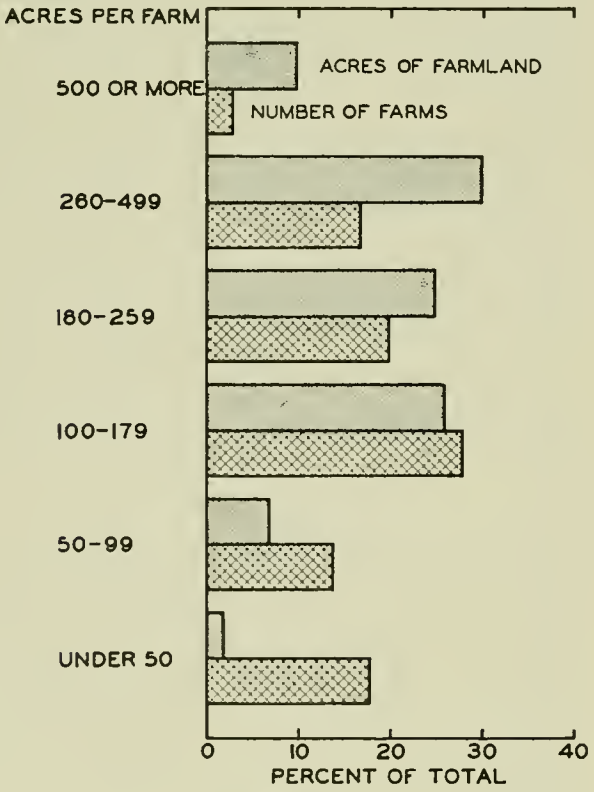
Farms Are Growing Larger

In Illinois, as well as in the United States as a whole, the average size of farms has been rising steadily. Illinois farms averaged 173 acres in 1955, an increase of 40 percent since 1900. This growth has accelerated in recent years, with a gain of 11 acres from 1900 to 1920, 10 acres in the next 20 years, 14 acres from 1940 to 1950, and 14 acres again in the next five years.

During this 55-year period, the number of Illinois farms declined by one-third to 176,000 in 1955. The consolidation of small farms into larger ones was responsible for much of this decrease. Other factors were the absorption of farm land by expanding cities, new and improved roads, the development of forest and park areas, and mining operations.

In 1955, one-fifth of Illinois farms were 260 or more acres in size and occupied two-fifths of all the farm land (see chart). On the other hand, nearly one-third of the farms contained less than 100 acres and occupied less than one-tenth of the land. The remaining farms, between 99 and 260 acres, made up about half the total number of farms and half the acreage.

DISTRIBUTION OF ILLINOIS FARMLAND, 1955



Source: *Farms Are Growing Larger*, University of Illinois, Agricultural Experiment Station, p. 11.

Toll Roads for Illinois

More than 187 miles of tollways spanning northeastern Illinois will be open to the public in 1959. Touching seven counties, three major tollways will form this network of highways — North Illinois Tollway will run from South Beloit to the outskirts of Chicago, Tri-State Tollway will pass through and around the metropolitan area of Chicago and connect with route US 41 just south of the Wisconsin line, and the East-West Tollway will run from a connection with route US 30 west of Aurora to an interchange with Tri-State west of Chicago. The North Illinois Tollway is scheduled for completion in July, 1958; the other two highways should be ready for motorists by the end of December, 1958.

Construction, operation, and maintenance responsibilities are shouldered by the Illinois State Toll Highway Commission, created in 1953 by an act of the Illinois General Assembly. The complete system is being financed by revenue bonds amounting to more than $400 million.

Safety precautions include fencing throughout the system to prevent the entry of persons or animals onto the pavement, guard rails on embankments more than 10 feet high, gradual curves to relieve driver monotony, large reflector signs indicating road rules, and a radio system to handle emergencies.

Crop Roundup

The two major Illinois crops, corn and soybeans, are much larger than seemed possible last summer. The indicated corn yield per acre is 60 bushels, 8 bushels less than the peak last year, but 6.5 bushels above the 1946-55 average. Total production, 497 million bushels, is 17 percent below 1956 but 3 percent over the 10-year average.

Soybeans are expected to average 25.5 bushels per acre. This represents a 3-bushel drop from last year's record high and a 2.5-bushel gain over the 1946-55 average. An 8 percent boost in total acres planted, as compared with 1956, helped minimize crop losses due to unseasonal weather. The jump in acreage planted, more than one-third over the 10-year average, reflects in part the high demand level for soybeans.

Sharp declines of one-fourth or more from 1956 are predicted for total production of wheat, oats, and barley. The hay crop is only slightly under the 1956 record.

Fruit crops are also under par, although the indicated apple production comes within 2 percent of the year-ago high. Honey is expected to chalk up a 15 percent gain.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1957

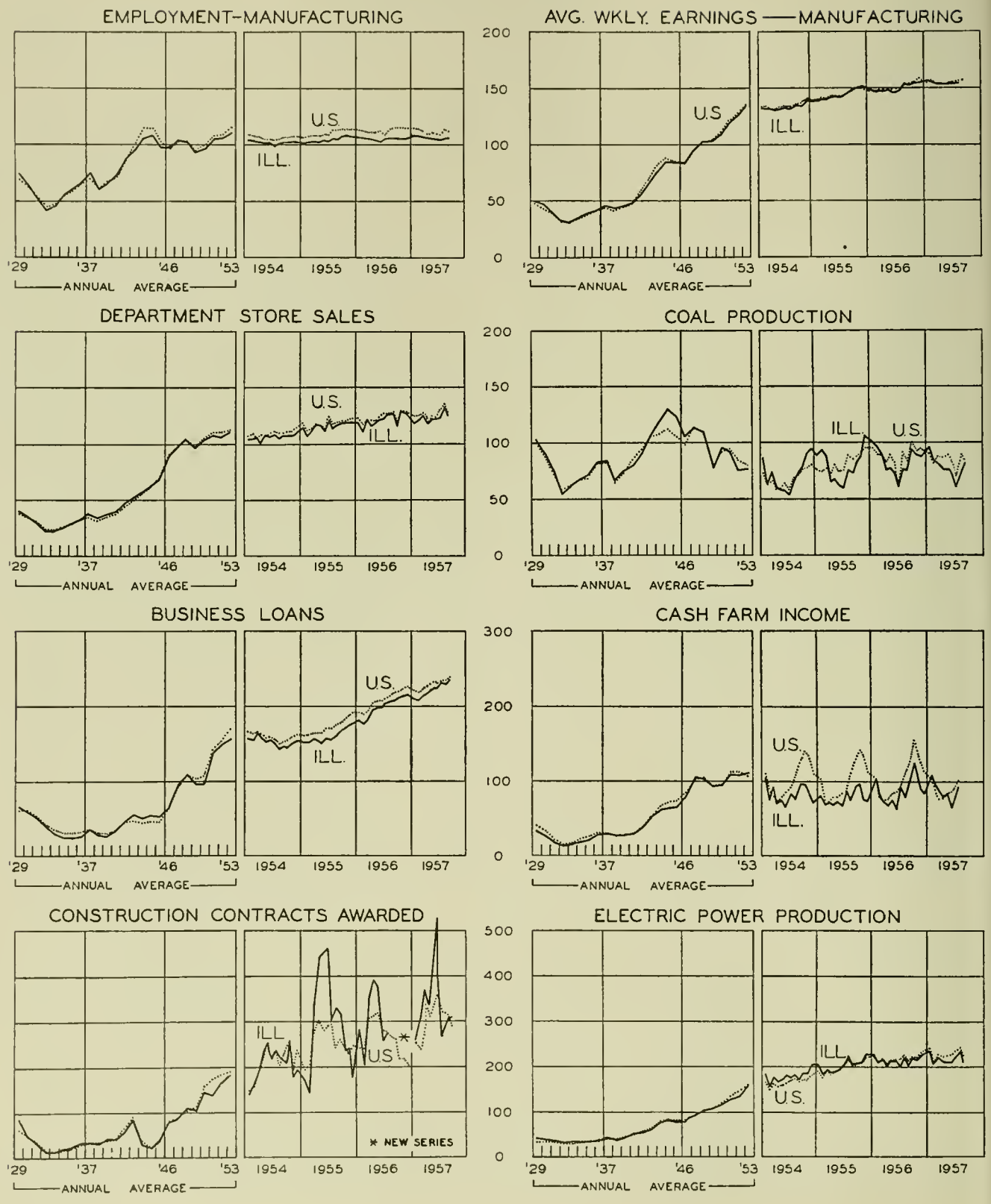
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$37,642[a]	1,165,252[a]	$547,700[a]		$15,584[a]	$13,849[a]
Percentage change from Aug., 1957	+3.4	−0.9	+2.9	0	+0.4	+11.5
Percentage change from Sept., 1956	+7.8	+6.3	+0.4	+4	+17.6	+1.6
NORTHERN ILLINOIS						
Chicago	$23,853	877,038	$389,464		$14,256	$12,261
Percentage change from Aug., 1957	+0.1	+0.3	+2.4	+1	+0.5	+12.5
Percentage change from Sept., 1956	+1 0	+5.0	−0.9	+5	+19.1	+3.1
Aurora	$1,040	n.a.	$ 8,463		$ 66	$ 131
Percentage change from Aug., 1957	+150.0		+8.5	−5	+2.6	+7.6
Percentage change from Sept., 1956	+208.6		+6.1	−8	+6.8	−0.5
Elgin	$ 277	n.a.	$ 6,291		$ 42	$ 63
Percentage change from Aug., 1957	−34.4		+7.3	−4	−1.5	−25.7
Percentage change from Sept., 1956	−9.8		−1.5	−3	+1.1	−28.7
Joliet	$2,142	n.a.	$12,058		$ 76	$ 83
Percentage change from Aug., 1957	+374.9		+6.0	+7	−8.1	+5.8
Percentage change from Sept., 1956	+207.3		+3.0	+5	+3.4	−15.8
Kankakee	$ 127	n.a.	$ 5,424		n.a.	$ 42
Percentage change from Aug., 1957	−95.0		+12.2	n.a.		−16.3
Percentage change from Sept., 1956	−43.0		+7.6			−4.5
Rock Island-Moline	$ 659	24,193	$10,979		$ 98[b]	$ 114
Percentage change from Aug., 1957	−28.0	−6.4	+6.6	n.a.	−5.2	−8.4
Percentage change from Sept., 1956	−15.6	+9 0	+12.2		+9.2	−6.9
Rockford	$1,845	44,434[c]	$19,399		$ 173	$ 180
Percentage change from Aug., 1957	+113.5	−1.0	+7.2	0	−6 1	+4.0
Percentage change from Sept., 1956	+7.2	+18.7	+5.1	−3	+2.5	+2.7
CENTRAL ILLINOIS						
Bloomington	$ 180	7,883	$ 5,721		$ 64	$ 73
Percentage change from Aug., 1957	−91 6	−11.4	+2.1	n.a.	−5.3	−8.4
Percentage change from Sept., 1956	+1.1	+2.7	+5.1		+4.4	−5.8
Champaign-Urbana	$ 671	11,187	$ 7,797		$ 66	$ 93
Percentage change from Aug., 1957	+45.2	−4.7	−6.6	n.a.	−2.0	+23.9
Percentage change from Sept., 1956	+92 3	+15.2	+10.4		+4.4	+10.3
Danville	$ 234	12,695	$ 6,627		$ 47	$ 55
Percentage change from Aug., 1957	+87.2	−2.8	+2.9	−6	−5.9	+2.7
Percentage change from Sept., 1956	−3.3	+11.0	+1.2	−3	−20.9	+8.3
Decatur	$ 872	34,153	$12,424		$ 115	$ 98
Percentage change from Aug., 1957	+11 9	−0.7	−0.2	−1[c]	−3.3	+8.0
Percentage change from Sept., 1956	−25.6	+6 9	+6.8	−3[c]	−9.5	−8.6
Galesburg	$ 632	9,047	$ 4,307		n.a.	$ 37
Percentage change from Aug., 1957	+124 1	−2.6	−7.2	n.a.		+20.8
Percentage change from Sept., 1956	+225 8	+11.3	+0.8			+31.2
Peoria	$1,378	57,028[c]	$18,603		$ 229	$ 230
Percentage change from Aug., 1957	−17.5	−7.2	+9.7	−7[c]	+1.5	+9.7
Percentage change from Sept., 1956	−59 6	+5 7	−2.7	−7[c]	+10.1	−1.4
Quincy	$ 624	12,914	$ 5,282		$ 42	$ 61
Percentage change from Aug., 1957	+104.6	−3.0	+3.7	−3	+2.4	+13.6
Percentage change from Sept., 1956	+52.6	+33.5	+4.0	−3	+12.8	+7.0
Springfield	$2,623	34,481[c]	$15,369		$ 124	$ 213
Percentage change from Aug., 1957	+192.1	−14.0	+3.8	−2[c]	+6.8	+13.7
Percentage change from Sept., 1956	+864.3	+3.3	+7.4	−5[c]	+11.2	+12.7
SOUTHERN ILLINOIS						
East St. Louis	$ 170	14,685	$ 9,528		$ 144	$ 52
Percentage change from Aug., 1957	+46.6	+0.5	+2.4	n.a.	−1.9	+0.6
Percentage change from Sept., 1956	−76.5	+5.2	−0.7		+3.6	+4.3
Alton	$ 167	14,875	$ 5,067		$ 40	$ 27
Percentage change from Aug., 1957	+203.6	−5.0	+1.6	n.a.	+6.1	−3.9
Percentage change from Sept., 1956	+106.2	+14 5	−3.8		+12.3	−5.7
Belleville	$ 148	10,640	$ 4,896		n.a.	$ 34
Percentage change from Aug., 1957	−7.5	+9.2	+0.3	n.a.		−4.7
Percentage change from Sept., 1956	−33.6	+34.8	+6.0			−16.2

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for August, 1957. Comparisons relate to July, 1957, and August, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending September 20, 1957, and September 21, 1956.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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HIGHLIGHTS OF BUSINESS IN NOVEMBER

Business activity continued to slide in November, after the October decline which left personal income down $1 billion and the index of industrial production down 2 points from the month before to 142 (1947-49 = 100). As a partial remedy for this weakness, the Federal Reserve System cut the rediscount rate to 3 percent.

Steel production fell about 100,000 tons below October and nearly 20 percent below November, 1956. Lumber production, off seasonally from October, was nearly 10 percent under last November. Carloadings dropped about 15 percent from the comparable period in 1956 and experienced the lowest Thanksgiving Day week since 1934. Business loans by banks continued the irregular decline evident since mid-September, a period when they usually increase. Business failures and insured unemployment were well above November, 1956.

Production of automobiles was increased by a quarter of a million over October, when several producers were still down for model changeovers, and was nearly as high as November, 1956. However, it appears that sales were somewhat short of expectations, so that dealers' stocks moved up again. Paperboard production and electric power output continued to run above the corresponding period last year.

Retail Sales Steady

Preliminary estimates place November retail sales at $17.2 billion, down slightly from October after adjustment for seasonal factors and trading day differences but 3 percent above last year.

In November the seasonally adjusted index of department store sales rose to 126 (1947-49 = 100) from the year's low of 120 in October. However, November sales were still under the four months preceding October and 4 percent below the 131 reached last November.

FRB Lowers Discount Rate

The Board of Governors of the Federal Reserve System recognized the developing deflationary forces in the economy by permitting the Federal Reserve Banks to lower the discount rate from 3.5 percent to 3 percent in mid-November. Other indications that money market rates were easing as a result of declining demand for funds had appeared earlier.

No immediate increase in member bank borrowing occurred after the discount rate was lowered. Several weeks passed while banks generally awaited further action by the System to encourage lending activity. When open-market purchases of Treasury bills were increased in early December, member banks found it possible to meet demands for funds with less need for borrowing than before the discount rate was reduced.

Construction Continues High

Although November construction outlays of $4.1 billion were down $400 million from October, they set a record for the month, exceeding the previous November high reached last year by 4 percent. The month's expenditures brought the total for the first eleven months of the year to $43.6 billion and made almost certain a new record for the year of more than $47 billion. However, the rise over last year was more than offset by increased building costs, so physical volume was down.

Both private and public construction outlays set new November records, although private expenditures were off seasonally 4 percent from October and public spending was down 17 percent. Utilities, office buildings and warehouses, and hospital and institutional buildings were the principal elements in private construction's gain over last November. Private residential construction also continued strong, staying above $1 billion.

All major types of public construction, except residential, were down from October, but highway construction, public educational buildings, and conservation and development projects were at November highs.

Manufacturers' Sales, Orders Off

Sales by manufacturers showed another month-to-month decline in October, after seasonal adjustment, most of the $200 million drop occurring in the durable goods industries. The adjusted total of $28 billion was 3 percent below October, 1956.

New orders placed with manufacturers were also off from September after allowance for seasonal factors. The adjusted October total of $26.3 billion was about $300 million below the preceding month, with both durable and nondurable goods industries experiencing curtailments. Machine tool orders fell 3 percent from September and 58 percent from October a year ago.

As shipments exceeded new orders by $2.5 billion, unfilled orders in all manufacturing sank to $53.4 billion, 6 percent under September and 15 percent below the like month last year.

Inventories, on a seasonally adjusted basis, were down to $54.1 billion, about $100 million under September but still $2.2 billion above October a year ago.

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Will the Recession Snowball?

All major segments of the economy are currently declining — in terms of physical volume if not in dollar value. Gross private investment is down from the high reached in the latter part of 1956. Net foreign investment is falling from the high reached during the Suez crisis in the first quarter of 1957. Government purchases of goods and services were also down in the third quarter — only slightly in dollar terms, more definitely in real terms. Consumer expenditures, which had been holding the line against the decline in other sectors, joined the downward movement after August. The same is true of personal income, which also lags at the turning points.

The primary concern at this point is how far the recession will go. Will it be another minor dip in a period of general prosperity, like 1949 or 1954, or will it be a longer and deeper recession?

Prospects for the Next Few Months

It seems almost a certainty that the recession will continue for at least the next few months. Business outlays for new plant and equipment have made the turn, merely leveling off in current dollars but showing a definite downturn in real equivalents. The appearance of excess capacity in most industries lies at the root of this development. Declines in new orders for equipment and surveys of planned capital expenditures agree in predicting lower levels in 1958. On the most likely pattern of a steady decline through the year, a moderate decline of 7 percent on the average would imply a reduction of roughly 15 percent by the year-end. There are no offsets in sight to counteract a decline of this magnitude.

Nonfarm inventories were still being accumulated in the third quarter, but at a rate only about a third of the previous peak. It is a healthy development that accumulation has dwindled so greatly, but the more important fact is that the inventory cycle has not gone into its liquidating phase. Ratios of inventories to sales have been rising consistently through the year. Total holdings have to be brought back into line with sales. With business sales declining, there is every reason to expect at least moderate liquidation in the months ahead.

Home building has leveled off after a two-year setback. The most recent data show a small increase in dollar terms, but this reflects increasing costs rather than expanded activity. Last month's article indicated why no strong support can be expected from this segment.

The current decline in net foreign investment will probably continue through next spring at least. Foreigners will be making every effort to protect their gold and dollar reserves in the months ahead, and as long as our economy holds fairly steady near the prevailing high levels, their efforts will probably be successful. This item must therefore be counted another negative, though not a large one, through this fiscal year.

The projected cuts in Federal spending appear to be the dominant influence on government purchases in the months ahead. New programs probably will not be rising fast enough to turn the total up before next spring. Even the strongly rising state and local government series showed a slight decline on a constant price basis in the third quarter. The over-all decline in real government expenditures will not be large, and they may well turn up again next spring, but for the time being, there is no contribution here to stem the decline in other sectors.

With consumer income and all the other major sectors on the decline, there is no reason to think that consumption will again rise to provide an offset to declines elsewhere in the economy.

The Cumulation of Deflationary Forces

As a rule, any decline in over-all activity has repercussions on all the various forms of private expenditure, tending to induce movements in the same direction. The significance of the current recession lies in the fact that by next spring it will have continued for almost a year, allowing plenty of time for such reactions to take effect. As each takes effect, it reinforces the decline in the aggregate and induces still greater weakness in the others. This cumulative pattern is the basis for expecting the recession to continue through the last half of 1958.

The position of fixed business investment is highly predictable through the end of 1958. Capacity will be higher, and output demanded lower. The imbalance that is forcing a moderate decline now will be larger, and will tend to force a still larger decline in 1959. Such a decline is not readily reversible. It may be recalled that the 1954 decline in plant and equipment expenditures continued through the end of the year, after general recovery had gotten under way. In this instance, with such support lacking, it appears likely that the decline will accelerate beyond present expectations.

It is more difficult to judge the precise impact of inventory changes, but liquidation may be expected to increase in a series of irregular steps as long as the recession lasts. The criterion for inventory holdings is the flow of goods to final users; and the total flow of goods has been declining since the first quarter. Inventories should have been liquidated during this period. Instead they have shown a small increase. The only thing that could now prevent liquidation is so rapid a decline in demand that business would be forced to hold unwanted stocks. But this would make for a sharper decline later. The current reversal could hardly stop short of a rate of liquidation as high as last year's peak rate of accumulation, or something over $5 billion.

Residential construction may be even slower in again turning down. However, total building remains high in relation to the increase in basic family formation, tending to saturate the market. The recession will now tend to end the special stimulants derived from rising incomes, including upgrading, "undoubling," formation of separate households by single individuals, and excessive migration. Housing is in the declining phase of its own specific cycle

(Continued on page 8)

TOYS—A CHRISTMAS INDUSTRY

Although toys, particularly dolls, have been made since prehistoric times, the business of toymaking appeared only a century ago in Germany. Commercial toy production in America is a relatively young industry which has gained status through the use of mass-production techniques since the beginning of the twentieth century. Until then most toys were simply or crudely made, although many elaborate and often ingenious ones were fabricated by craftsmen for children of wealthier families.

At the outbreak of World War I, half of America's toys were imported from Germany. The remainder were made either in the home or by small factories. A wartime embargo on German merchandise brought revolutionary changes in the American toy industry. Output increased greatly, as did the number and size of toy factories. Constructive and educational toys, with which children could learn by doing, were added to older lines of novelties.

Scope of the Industry

Because the variety of toys is so great, considerable difficulty exists in determining the breadth of the toy industry. The *1954 Census of Manufactures* enumerates only those establishments primarily engaged in toy production. This unfortunately disregards the great number of toys manufactured as secondary products by factories in other industry classifications. The *1954 Census* places toymaking establishments in three major groups (dolls, children's vehicles, and games and toys), which collectively had 1,430 factories employing nearly 60,000 persons. These plants added more than $311 million in value by manufacture, an average of $218,000 per plant. Toy Manufacturers of the U.S.A., Inc., estimates, on a somewhat different basis, that the total number of toy plants approached 2,000 and total employment 70,000 in 1956.

Toy sales tripled in dollar volume between 1938 and 1956. Sales last year were estimated at $1.3 billion. Besides price increases, factors such as the increased birth rate and greater disposable income were responsible for this growth.

Most of our toys are produced and sold in this country, with only about 2 percent being exported or imported. The nation's 2,400 jobbers handle the largest shipments of toys; they provide an outlet for nearly 45 percent of the total. Most final sales to consumers are made by department stores, variety and chain stores, mail order houses, and supermarkets, in that order.

Problems and Trends

A persistent problem facing the toy manufacturer is that of seasonality, since more than 60 percent of all annual toy sales occur during Christmas time. Yet to operate economically, the toy factory must keep production fairly steady throughout the year. Because of the Christmas season, shipments rise to a pronounced peak during the late months of the year, thereby creating the problem of storage as well as the difficulty of financing. Since most toys are bulky, considerable warehouse space is needed. Manufacturers have lessened the storage pinch through the practice of "dating"—a means of inducing retailers and jobbers to accept paid shipments at a date months before the expected sale by offering greater discounts.

Toy manufacturers also have pushed toward establishing retail toy sales on a year-round basis through greater diversification of their product; that is, many now make toys such as inflatables (backyard pools, beach toys, and so on) and model kits of all kinds, which will be in demand at other seasons. The diversification move has been assisted by the postwar rise of supermarkets, where toys are continuously displayed before mothers and children, and exclusive toyshops, which have stimulated a trend toward year-round buying. However, even these stores encounter peaks during the Christmas period.

The pre-World War II trend toward giving toys utility has been further accentuated in the past decade. Constructive playthings, most of which are intricate and realistic, have grown in popularity. Today's toys also tend to reflect the age we live in, portraying atomic weapons, space missiles, and cars controlled by sound waves.

Toy Industry in Illinois

Although no precise statistics are available, Illinois appears to rank about fifth nationally in this industry. The *1954 Census of Manufactures* reveals that the State had a total of 81 factories primarily engaged in toy production. An estimated 20 to 30 plants produced toys as secondary items.

Of the three major toy categories, the State is most prominent in the manufacture of games and toys, with 73 factories. Only New York and California had more establishments in this field of toy manufacture. These 73 plants produced $17 million in value added by manufacture in 1954. The State also is the foremost producer of children's wagons, with the Radio Steel Company leading the nation's production. Although Illinois had six doll factories in 1954, the doll industry is small here; most are made in the Middle Atlantic states near the textile and cotton factories.

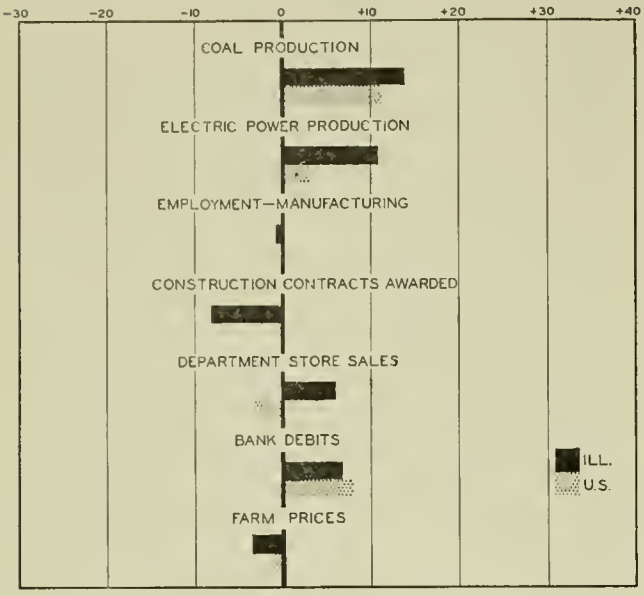
In toy retailing, Illinois was fourth last year with an $86.8 million volume, 6 percent of the national total. The State's annual toy sales in 1956, if averaged among its 2.7 million children under 15, would be about $32 per child. An estimated 25,000 stores, one-fourth of the State's total retail stores, carried some type of toys last year. The State also had 160 toy jobbers, or 7 percent of the nation's 2,400, in 1956.

Illinois is the home of the firm believed to be the oldest established toy works in America—the Dowst Manufacturing Company of Chicago, which began by casting miniature trinkets. Since then the industry has expanded and diversified in various parts of the State. Chicago has become the producer of a wide variety of playthings, including yo-yos, plastic and cast metal toys, wooden construction kits, paints and crayons, blocks, kites, hooks, and mechanical train sets. In addition, toy production is carried on in other cities, such as Decatur, Aurora, Freeport, Rockford, and Quincy.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1957, to October, 1957



ILLINOIS BUSINESS INDEXES

Item	October 1957 (1947-49 =100)	Percentage change from Sept. 1957	Percentage change from Oct. 1956
Electric power[1]	232.1	+10.8	+ 6.5
Coal production[2]	93.6	+14.0	− 0.4
Employment—manufacturing[3]	105.6	− 0.8	− 3.3
Weekly earnings—manufacturing[3]	156.8[a]	+ 1.7	+ 1.8
Dept. store sales in Chicago[4]	115.0[b]	− 8.0	0.0
Consumer prices in Chicago[5]	124.7	+ 0.3	+ 3.0
Construction contracts awarded[6]	282.4	− 8.2	n.a.
Bank debits[7]	190.5	+ 6.8	+ 6.6
Farm prices[8]	81.0	− 3.6	+ 2.5
Life insurance sales (ordinary)[9]	288.9	+10.6	+15.0
Petroleum production[10]	132.3	+ 7.5	+ 1.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] September data; comparisons relate to August, 1957, and September, 1956. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	October 1957	Percentage change from Sept. 1957	Percentage change from Oct. 1956
	Annual rate in billion $		
Personal income[1]	345.6[a]	− 0.3	+ 3.4
Manufacturing[1]			
Sales	336.0[a]	− 0.7	− 2.4
Inventories	54.1[a, b]	− 0.2	+ 4.4
New construction activity[1]			
Private residential	18.4	− 1.9	+ 2.8
Private nonresidential	18.2	− 1.4	+ 6.5
Total public	16.8	− 4.2	+ 7.9
Foreign trade[1]			
Merchandise exports	18.5[c]	− 8.2	+ 0.5
Merchandise imports	12.1[c]	− 3.4	+ 1.2
Excess of exports	6.4[c]	−16.0	− 0.8
Consumer credit outstanding[2]			
Total credit	43.0[b]	+ 0.0	+ 7.0
Installment credit	33.2[b]	+ 0.3	+ 7.9
Business loans[2]	31.8[b]	− 2.0	+ 6.2
Cash farm income[3]	34.2[c]	+10.4	− 7.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	142[a]	− 1.4	− 2.7
Durable manufactures	155[a]	− 2.5	− 4.9
Nondurable manufactures	132[a]	0.0	+ 0.8
Minerals	127[a]	− 0.8	− 3.1
Manufacturing employment[4]			
Production workers	103	− 0.3	− 4.1
Factory worker earnings[4]			
Average hours worked	99	− 1.2	− 2.9
Average hourly earnings	156	0.0	+ 3.0
Average weekly earnings	155	− 1.2	− 0.1
Construction contracts awarded[5]	289	− 0.4	+ 7.0
Department store sales[2]	120[a]	− 6.2	− 1.6
Consumer price index[4]	121	0.0	+ 2.9
Wholesale prices[4]			
All commodities	118	− 0.3	+ 1.8
Farm products	92	+ 0.5	+ 3.5
Foods	106	− 0.9	+ 1.8
Other	126	− 0.2	+ 1.7
Farm prices[3]			
Received by farmers	89	− 1.1	+ 3.5
Paid by farmers	118	0.0	+ 2.6
Parity ratio	81[d]	− 2.4	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for September, 1957; comparisons relate to August, 1957, and September, 1956. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Nov. 23	Nov. 16	Nov. 9	Nov. 2	Oct. 26	Nov. 24
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,553	1,600	1,567	1,637	1,647	1,814
Electric power by utilities...mil. of kw-hr	12,136	11,953	11,914	11,860	11,787	11,439
Motor vehicles (Wards)...number in thous	177	165	159	147	127	136
Petroleum (daily avg.)...thous. bbl	6,832	6,831	6,796	6,712	6,766	7,195
Steel...1947-49=100	113	115	116	118	119	143
Freight carloadings...thous. of cars	633	647	675	714	704	651
Department store sales...1947-49=100	155	143	135	122	127	149
Commodity prices, wholesale:						
All commodities...1947-49=100	117.8	117.8	117.5	117.5	117.7	115.9[a]
Other than farm products and foods...1947-49=100	125.6	125.6	125.6	125.6	125.6	124.2[a]
22 commodities...1947-49=100	84.9	84.1	84.4	84.4	84.5	93.0
Finance:						
Business loans...mil. of dol	31,794	31,836	31,751	31,756	31,807	30,449
Failures, industrial and commercial...number	308	306	266	250	281	207

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1956.

RECENT ECONOMIC CHANGES

Installment Debt Up

Consumers added $85 million to their installment debt during October of this year, raising total installment debt to $33.2 billion.

On a cumulative basis, installment debt expansion during the first ten months of 1957 amounted to about $1.7 billion, as compared with a $1.8 billion increase for the same period last year. After the rapid advance in 1955, which saw installment debt rise by $4.4 billion between January and the end of October, the gap between extensions and repayments was narrowed (see chart), and the rate of growth of total installment debt was slowed considerably.

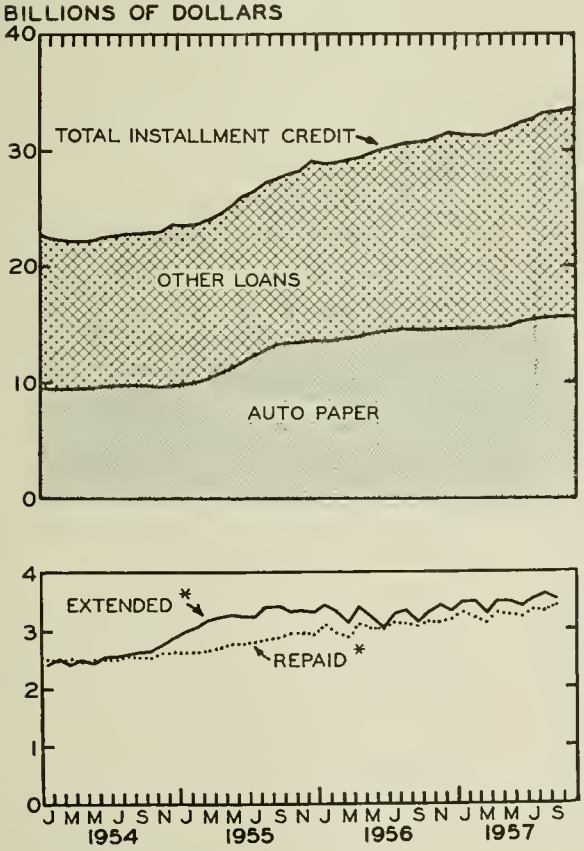
Total consumer credit reached $43 billion in October, an increase of $17 million from the previous month. Total credit includes, along with installment debt, single payment loans, charge accounts, and service credit. Compared with a year ago, total consumer credit was up more than $2.8 billion at the end of the month.

Industrial Production Down

The Federal Reserve Board reported that industrial production during October slipped to its lowest point in fifteen months. The October rate of 142 (1947-49 = 100) was 2 points below the previous month and 4 points under the rate for October, 1956.

The durable goods and minerals industries bore the brunt of the slowdown in production activity as each continued to decline, whereas activity in the nondurable goods industries was maintained at the September level.

INSTALLMENT CREDIT



* Seasonally adjusted.
Source: Federal Reserve Board.

Both durable manufactures and minerals were down 4 points from October, 1956, levels. The Board also noted that steel mill operations decreased contraseasonally during October, and in early November, ingot production was about 20 percent below a year ago.

Tool Demand Off

The machine tool industry continues to be faced with rapidly declining demand. Since December, 1955, when net new orders for machine tools reached a high of $151 million, demand has been moving consistently downward. Net new orders for September of this year dropped to $29 million and preliminary estimates for October indicate a further decline of almost a million. The $28 million of orders in October was the lowest level in more than seven years.

For the first ten months of 1957, net new orders amounted to about $473 million, approximately 42 percent below the level of $803 million booked in the same period last year. Shipments, on the other hand, have been running slightly ahead of last year as companies strove to work off backlogs and catch up on deliveries. As a result, the industry reduced its backlog from 6.2 months' to an estimated 3.4 months' production at the end of October.

Personal Income Falls

Personal income declined slightly from August to September, the first decrease since January, 1956. It continued to slip in October, falling another billion to a seasonally adjusted annual rate of $345.5 billion.

The latest decline was accounted for by a $1.5 billion loss in wage and salary payments which was only partially offset by a $500 million rise in government transfer payments. The change in wage and salary payments reflected reductions in employment and hours worked per week, as hourly earnings remained unchanged. More than half of the October rise in government transfer payments came from an increase in unemployment insurance benefits.

For the first ten months of 1957, personal income was at an annual rate of $342.5 billion, $17.5 billion or 5.5 percent higher than in the corresponding period last year.

Farm Prices Rise

The Department of Agriculture reported that the index of prices received by farmers moved up 2 points during November. This advance followed a 5-point decrease in the index during the previous month. The index of 242 (1910-14 = 100) in mid-November was 8 points higher than last year but was well below the record of 313 registered early in 1951. Most of the advance during the month resulted from higher average prices for meat animals, vegetables, poultry and eggs.

A general rise in the retail price level, however, pushed the index of prices paid by farmers to a new high of 298 percent of the 1910-14 average and left their overall purchasing power unchanged. The 298 record is 2 points above the mid-October index and 9 points, or 3 percent, above the year-ago level. The advance during November ended a seven-month period during which the index of prices paid by farmers remained at, or only slightly below, the previous high of 296.

With both prices paid and prices received advancing at about the same rate, the parity ratio held steady at 81, unchanged from both the mid-October and the year-ago level.

PROGRESS IN REDUCING FARM SURPLUSES

L. F. STICE, Professor of Agricultural Marketing

As a matter for public concern, few issues have ranked ahead of the "farm surplus problem." Public interest plus pressures by farmers long ago were translated into specific corrective action by the government. In recent years nearly every Congress has passed legislation dealing with the problem. Excluding national security, one of the three largest items in our Federal budget is that for agriculture.

The terms "farm surpluses" and "the farm surplus problem" are often used interchangeably to describe two different problems. They may refer to the stocks of government-owned farm commodities which have accumulated under the price support program or to a basic imbalance between production and utilization of farm products.

The imbalance between agricultural production and utilization is an economic problem with its roots in technological advances. Government-owned stocks are a socio-political problem rooted in the sharp farm price break of the 1920's and the business recession of the 1930's. It will not be misleading to refer to the one as an economic surplus and the other as a government surplus.

The Government Surplus

On September 30, 1957, the United States Department of Agriculture's inventory of farm products was valued at $5.2 billion, and another $1.5 billion was loaned on products which farmers still owned. In addition, the department owned $183 million worth of strategic materials, largely metals, which had been acquired from foreign countries in exchange for surplus farm commodities.

Twenty-three products were in the department's farm inventory, but three crops — wheat, corn, and cotton — made up 85 percent of the total value. These constitute the part of the "government surplus" which causes the most concern. The other twenty products also present economic and political problems, but government stocks are smaller, so that these problems are much less difficult to solve. Chart 1 shows carryover stocks of wheat, cotton, and corn from 1952 through 1958. Data for 1958 are the department's forecasts. Increases over 1952 may be considered surpluses, as carryover stocks in that year were about normal.

Wheat and cotton surpluses have been reduced during the past two years for identical reasons: United States crops have been small and exports unusually large.

Wheat. Even with the reduction of the past two years, carryover stocks of wheat next July 1 (now estimated at about 850 million bushels) will almost equal a normal year's use. Last season (1956-57) disappearance of United States wheat was estimated to be 1,134 million bushels, and the forecast for the current marketing year is 1,000 million bushels. But in the four prior years, disappearance ranged from 850 million to 978 million bushels.

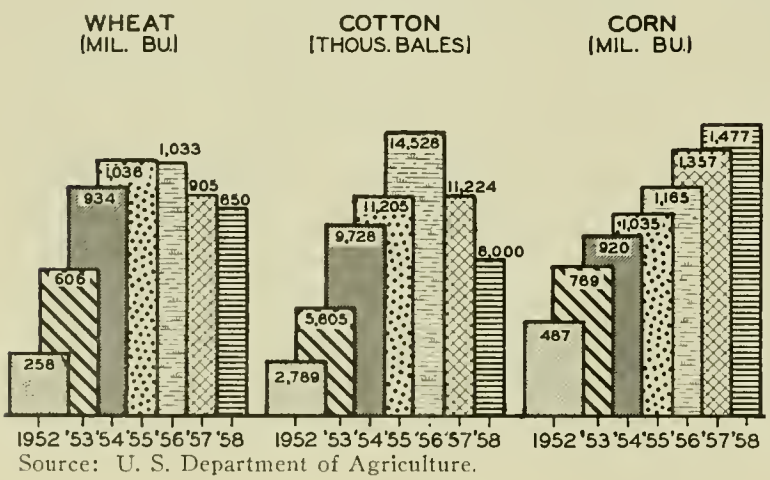
The use of wheat in the United States for food, seed, and industrial purposes is very constant at about 550 million bushels. The remainder of our production is exported, fed to livestock, or, as in recent years, delivered to the government. Government stocks must eventually come back into the market for one of the other uses.

Last season's large exports of 547 million bushels were made possible by the small European crop. The Department of Agriculture's tentative estimate of exports for the current season is 400 million bushels. Future prospects are for some further reduction in exports to about 250 to 350 million bushels annually. Canada must eventually be more competitive in the world wheat market and at our expense. Hence, the prospects are that our annual market potential for wheat is 850 million to 950 million bushels. Any significant increase is likely to come in livestock feeding, and at lower prices.

This is not a bright picture. It becomes more gloomy when we realize that the 1957 crop of 927 million bushels was produced on the fewest wheat acres since 1904 with the exception of 1934, which was a year of extreme drought. Between 1953 and 1957 United States farmers reduced wheat acreage 37 percent, but production was down only 21 percent.

Cotton. The cotton surplus concerns Midwest agriculture for two reasons. To our disadvantage cotton acreage controls have diverted several million acres of land to the production of feed grains which compete with corn. To our advantage, smaller cotton production has lessened the competition of cottonseed oil and meal with soybean oil and meal. On balance these shifts have been to the disadvantage of Midwest agriculture.

CHART 1. STOCKS OF WHEAT, COTTON, AND CORN



Source: U. S. Department of Agriculture.

Since 1956 substantial progress has been made in reducing the cotton surplus. After the 1956 harvest, a record carryover of 14.5 million bales plus an average crop gave us a cotton supply of 27 million bales. This was a two-year supply at the rate the world was using our cotton. By August, 1958, United States stocks of old cotton are expected to be down to about 8 million bales, nearly a year's domestic consumption.

Larger exports played the major role in this reduction of our cotton stocks. Competitive pricing along with lenient terms of sale and financing enabled the United States to increase exports from 2.2 million bales in 1955-56 to 7.6 million bales in 1956-57.

Further reductions in the cotton surplus may be accomplished in the near future by holding down production. The potential market for our cotton is expected to be about 14.5 million bales. Exports are expected to decline

to about 5.5 million bales, and domestic consumption to hold at about 9 million bales. At this rate of use, and with production at the 1957 level of 11 to 12 million bales, the cotton surplus would soon be corrected. But the small 1957 crop was due largely to the diversion of cotton land to the soil bank program. That crop was raised on about 14 million acres, which was the smallest acreage since 1878 and well below the ten-year average of 22 million acres. Even if the cotton acreage stays low, rising yields are likely to increase production.

Corn. Although sounder basically than many crops, corn is now in the most difficult position of all. Each year since 1952, stocks of old corn have been increasing until they now equal a two-year market supply.

On October 1, 1957, carryover stocks of old corn were estimated to be 1,357 million bushels. Annual use of corn is approximately 3,200 million bushels but about 75 percent is fed on the farms where it is grown. Only about 660 million bushels is sold into the commercial market each year. This 660 million bushels is divided roughly as follows: processing for food, 225 million bushels; alcohol, 25 million bushels; seed, 12 million bushels; exports, about 100 million bushels; and manufactured livestock feeds, 300 million bushels.

What are the prospects for reducing government stocks of corn? Will it be through increased consumption or smaller production? A significant expansion of the nonfarm market for corn is not imminent. The use of corn for food and seed is very constant. To expand the use of corn for industrial alcohol would require a constant supply of very cheap corn and would meet with stiff competition from the petroleum industry.

Exports increased to about 160 million bushels in 1956-57 because of intensive sales efforts by our government. Further expansion in exports is not to be expected, as most nations of the world cannot afford to consume the products of their own land in the form of livestock products, much less to buy livestock feed.

The third, and by far the largest, outlet for corn is livestock and poultry feeding. Including the corn in manufactured feeds, this market annually accounts for 85 to 90 percent of the total disappearance, and in 1956-57 totaled 2,829 million bushels. This is a high level of feeding and yet, at this rate, total disappearance of corn is about 100 million bushels below the 1957 production of 3,333 million bushels. This imbalance would not be insurmountable if we did not have increasing supplies of other feed grains and if consumer purchasing power for livestock products stayed high. But 1957 production of other feed grains was up 40 percent from 1956, and there are growing signs of lower consumer incomes ahead.

It seems inevitable, therefore, that in the immediate future farmers should cut back the production of corn and other feed grains. Before discussing this point further, let us examine the problem of our economic surplus.

The Economic Surplus

Excessive productive capacity is believed by many to be agriculture's basic problem. That is, farmers are geared to produce more than they can sell at profitable prices. This imbalance between production and demand is thought to have developed for two reasons:

First, the rapid adoption of technological improvements has greatly increased output per man, per acre, and per animal. To illustrate, with less land in crops in 1957 than in 1940, crop production is 25 percent higher, and livestock production is up 40 percent with breeding units only 8 percent higher. Productivity per man-hour more than doubled during this period.

The shift from horsepower to tractor power is the second major cause of increased agricultural production. The effect was twofold. Tractor power is more efficient, and the cutback in horses and mules released land for the production of food and fiber. For example, 33 million fewer acres of cropland were required to feed horses and mules in 1955 than in 1940. This is roughly equal to the 1957 harvested acreage of oats or winter wheat.

The growth in demand for farm products is popularly measured by the nation's population growth, with some recognition for the influence of changes in per capita incomes. The justification for this reasoning is that exports take only 8 percent of our annual farm output.

The current imbalance between farm output and use is often illustrated by citing the fact that between 1940 and 1955 farm output increased 35 percent whereas population increased only 25 percent (see Chart 2).

How much is agricultural production out of balance? This question is difficult to answer.

The relative increases in farm output and population is a questionable yardstick. Population growth was well ahead of farm output in the 1920's and 1930's and yet agriculture was not prosperous.

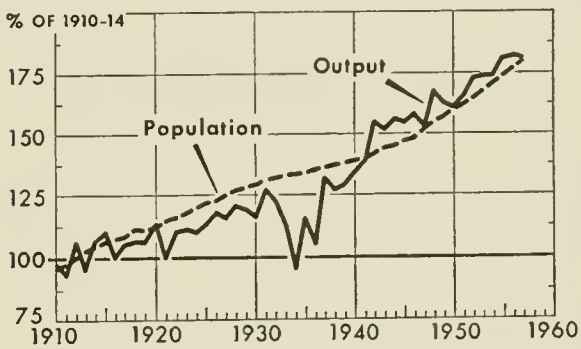
To assume that quantities of farm products acquired by the government measures the imbalance is fallacious. The price support programs under which these stocks were acquired has, in itself, distorted agriculture's production and distribution patterns so that an accurate appraisal of the problem is almost impossible. Artificially high prices have been stimulants to technology, to substitutions, to the intensive use of production inputs, and to higher capital investments; and they have curbed the expansion of markets and the flow of products into use. More recently, as government surplus disposal programs were intensified, markets for farm products, especially export markets, have been artificially stimulated.

We are unable to determine agriculture's true state of health because of the medicine the patient has been taking. What we do know, however, is that the government's price and income support program has placed some of the economic surplus problems of other areas on the shoulders of the Midwest farmers.

The Corn Belt Dilemma

As implied earlier, the Corn Belt's basic prospects after World War II were not bad. Between the early 1930's and the end of World War II, corn acreage nationally was reduced from about 105 million to 85 million

CHART 2. POPULATION AND FARM OUTPUT



Sources: Bureau of the Census and U. S. Department of Agriculture.

acres. At the same time, the Corn Belt developed a second profitable crop, soybeans. Fortunately, the demand for each of these crops has also been strong owing to a growing export market for soybeans and to high consumer incomes with which to buy livestock products.

But compulsory acreage controls on wheat, cotton, rice, and tobacco have resulted in sharp increases in acres of barley, sorghum grains, and soybeans. Between 1952 and 1957 barley increased 6.7 million acres; sorghum grains, 12.7 million acres; and soybeans, 7.3 million acres. Oats acreage declined 1.2 million acres. The net increase for all these crops was 25.5 million acres.

At the same time, acreage of corn declined 8.6 million, but this cutback did not result in smaller corn production. The net result was a 16 percent increase in total production of all feed grains.

We now face some very difficult decisions. To increase livestock feeding enough to balance feed grain production with use is almost certain to result in unprofitable livestock prices.

With a moderate increase in livestock feeding, some cutbacks in feed grain production will be necessary in order to stop the build-up of the corn-feed grain surplus. To reduce existing government stocks will require even greater cutbacks in feed grain production. The consequence of either adjustment would be lower farm incomes, unless there are unexpected developments.

At present, the government through its soil bank program is attempting to remove cropland from production through rental payments. These payments were meant to partially replace the income lost through production cutbacks, but to date, the major accomplishment of this program has been to boost farm incomes. In 1958, cropland must be reduced before payments can be earned. The future success of this program as a production control measure is dependent upon sizable government appropriations and widespread farmer participation.

What progress are we making in solving the farm problem? There is much evidence that since the end of World War II the medicine given agriculture has been more damaging than the illness of excess capacity. Certainly the patient should not have been taking the same medicine that he took in the depression thirties. The problem then was lack of customers with money. The present surpluses developed when customers were never more numerous nor more prosperous.

Granted that population growth offers only a dim and forlorn hope to farmers on uneconomic units or to those with heavy debts to pay and families to raise. Government programs which accumulate surpluses and permanently restrict output offer less. The increasing recognition of this fact among farmers and their leaders is progress toward solving the farm surplus problem.

Will the Recession Snowball?

(Continued from page 2)

and cannot be expected to withstand the adverse effects of rising unemployment. By the middle of next year, it is likely that the decline will be resumed and will accelerate through the second half.

Another type of business investment that will topple under adverse conditions is consumer credit expansion. This expansion of "business-owned" inventories in the hands of consumers is governed by the same kind of stock-flow relationships as the inventory cycle proper. During recent months it had the benefit of high auto sales, as heavy inventories of 1957 models were being closed out. It also helped stimulate those sales, since over half of the cars purchased on credit were financed by 36-months' paper. All the motor companies were pushing sales with such devices as special discounts and contests, and the threat of rising prices was used emphatically by dealers to dispose of the old models. Now the higher prices are effective, and there has been an additional adverse development in the decline of the stock market. In addition, rising unemployment is undermining the base on which credit expansion depends. Hence, the prospective reversal in consumer credit could contribute almost as much deflationary effect as the inventory reversal.

What this all adds up to is a strong probability that a true conjuncture of deflationary forces will dominate by the middle of next year, with the consequence that there will be no early stopping point for the recession. Once all these forms of investment are on the slide, the economy will be in the declining phase of a great postwar cycle, similar to those that have followed previous wars. The required adjustments in rates of fixed investment will be large, running to perhaps 50 percent or more; and the adjustments will be long drawn out, running on through 1959. It is hard to see the ultimate extent of the decline, but for a time, any tendencies toward recovery will probably be abortive.

What Will the Government Do?

There is nothing to indicate that Washington views this situation realistically. In the present period of budget making, diverse objectives such as national security, economy, and full employment are jumbled together in hopeless confusion. Some say that tax cuts are now impossible and that we must sacrifice to bolster defense; but in the next breath they assert that the recession is making productive resources idle. Top officials seem to believe that pretending everything is all right will really make it so.

The hysteria resulting from the sputniks is not helpful. One of its main products seems to be a wave of wishful thinking. A senator suggests that we should shoot the sputniks down; if our ability to do so is any more than a daydream, it is not apparent to anyone else. In the field of economics, the wishful thinking takes the form of a hope that an expanded missiles program will pull us out of the hole. The additions held to be necessary for this program run to an annual rate of $2 billion by the end of fiscal 1959. This is half of 1 percent of the gross national product; it is hardly more than sufficient to offset the programmed cutbacks in other military spending.

At the moment, the economy is down several billion in real terms, and the only thing being done is a moderate easing of the Federal Reserve's tight money policy. When the magnitude of the problem is finally clear, more effective measures will be considered. By that time, activity will probably be down about $15 billion from the third quarter high. By the time new programs of several billion can be put into effect, say by the end of 1958, it will probably be down more than $25 billion, and unemployment will exceed 5 million.

Moreover, any new Federal programs will then be partially offset by cuts in state and local programs. Optimists who are now projecting the latter ever upward will be shocked to find how quickly "the trend" can change when state and local revenues are curtailed.

If this appraisal of prospects presents a challenge, the challenge will have to be met in real terms. What should be apparent to everyone is that waving the flag will not do the job. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Manufactured Food Products

The production of manufactured food products in the United States was about 13 percent larger in 1956 than the average during 1947-49 (see table). This aggregate gain in the output of manufactured food reflects widely varying rates of change for major product groups as well as for individual products. Major food category changes ranged from a 2 percent decline for bakery products to gains of 33 percent for meat products and canned and frozen foods. An even wider variation was recorded between the low and high indexes for individual products — from a 16 percent drop for wheat flour to a 51 percent jump for beef.

Industry	1956 (1947-49 = 100)
Food manufactures (total)	113
Meat products	133
Dairy products	110
Canned and frozen foods	133
Grain-mill products	101
Bakery products	98
Sugar	122
Confectionery	107
Vegetable oils	132

Factors that contributed to the growth in output of manufactured food products were population growth, a movement of people from farm to nonfarm homes, and technological developments which resulted in new and improved convenience products. The increase in the number of women working outside the home has been a factor in the rapid acceptance of convenience foods by consumers.

Winter Aids

Driveways and garages can be protected against salt pitting with a concrete sealer, Archer Slab-Kote. Produced by the Archer-Daniels-Midland Company, this sealer is most effective on concrete that is less than four years old. During this period, concrete is most susceptible to pitting caused by the combination of salt, freezes, and thaws. The sealer price is $2.98 per gallon.

Winter sun porches and greenhouses are now available to the do-it-yourself homeowner. Sisal Glaze, a semi-rigid plastic sheet in 36-inch and 42-inch rolls, can be cut with scissors and stapled with a hand stapler to a wooden frame. Tests on housings covered with this clear plastic indicated that internal temperatures may rise to 80 or 90 degrees Fahrenheit when outside temperatures are below freezing. The manufacturer, American Sisalkraft Corporation, of Attleboro, Massachusetts, suggested that the material may also be used for poultry houses, warehouses and storm windows.

Photocopiers

A portable photocopier, Contura Portable, is now being marketed by the F. G. Ludwig Company, 103 Coulter Street, Old Saybrook, Connecticut. Reproductions of material in bound volumes can be made by placing the machine face down on the book. The plastic air cushion follows the contours of the page when in this position. Single sheets can be handled with a photocopier in an upright position. According to the manufacturer, the machine will copy colored inks, crayon, pencil, and spirit duplicator. Operating costs are approximately 11 cents per page; the copiers cost $137.50 or more.

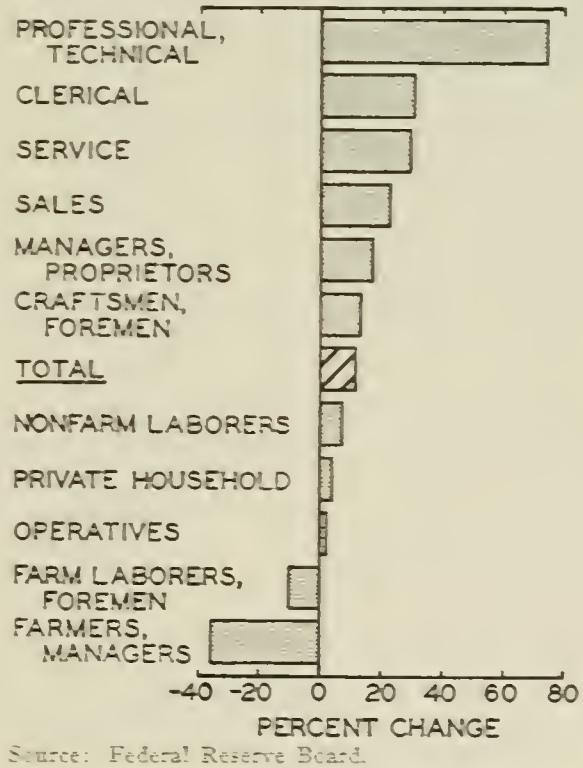
Another photocopy machine capable of reproducing material from books is the Copease Duplex Book Copier. The sponge rubber cushioned head adjusts to the book to help provide uniform contact and even pressure. The exposer and printer are combined into a single unit, and the machine can be used under nearly all lighting conditions. The maximum size of copy work that can be handled is 8½ inches by 14 inches. Further information is available from the Copease Corporation, 425 Park Avenue, New York 22, New York.

Occupational Changes

The make-up of the nation's labor force has been sharply altered during the past decade. In addition to an increase of more than 7 million persons to the work force total, there have been marked shifts among the various components. As can be seen in the chart, the number of professional and technical employees has increased by three-fourths during the postwar period. Currently about 9 percent of all jobs are in this category as compared with 6 percent in 1947. The white-collar group as a whole (professional and technical, clerical, sales, and managerial personnel) also increased in relative importance, advancing from slightly more than one-third to two-fifths of the total labor force.

All groups, with the exception of the farm segment, gained in numbers. Over the past ten years, farm employment has declined by nearly 2.5 million. More than 16 percent of the total number of employed workers in 1947 were farm employees; in 1957 this segment has dropped to 11 percent. An increasing number of farmers have taken second jobs outside the field of agriculture during this period.

CHANGES IN EMPLOYMENT, 1947 TO 1957



Source: Federal Reserve Board.

LOCAL ILLINOIS DEVELOPMENTS

Seasonal factors dominated business movements in Illinois during October. Advances of 7 percent or more were recorded in bank debits, electric power consumption, coal and petroleum production, and life insurance sales. On the other hand, construction in the State and seasonally adjusted department store sales in Chicago declined 8 percent.

Comparisons with October, 1956, showed increased activity in all indicators with the exception of slight declines in coal production and manufacturing employment. Life insurance sales gained 15 percent; bank debits in selected Illinois cities and electric power consumption advanced more than 6 percent.

Road Roundup

The Illinois road construction program for 1958 will hit an all-time high of $270 million, according to plans announced by Governor Stratton. Almost 70 percent of this sum is to be provided by Federal funds and the remainder by State and local sources. Of the total, $161 million has been allocated for the interstate highway program, which includes 161 miles of road improvements, 51 bridges, 231 grade separations, and the acquisition of more than 500 miles of highway right of way. The remaining $109 million will be used for similar improvements on the regular State primary networks.

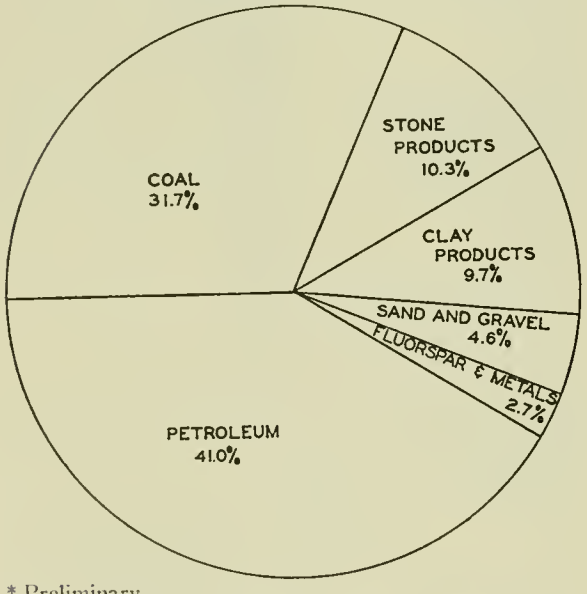
In 1957, the road construction program called for total expenditures of $220 million. The value of contracts awarded during the year amounted to $142 million. Construction work included about 840 miles of road improvements, nearly 100 new bridges, the widening of 30 bridges, and 15 grade separations.

Water Reserves

Illinois, on the whole, has adequate water supplies, but the water is not equally available in all areas. Consequently, serious water shortages have arisen in various parts of the State. In order to combat this drought threat, two Illinois communities have recently completed the construction of dam and reservoir systems. Six miles northwest of Effingham, across Blue Point Creek, is the new 2,200-foot-long dam that was begun in September, 1956. About 540 feet thick at the bottom and 30 feet at the top, this $1.2 million barrier is designed to impound 4.5 billion gallons of water. A controlled flow of lake water will run through the Blue Point channel into the Little Wabash River. From a pool in this river, the water will be pumped into the existing municipal system. The reservoir, when full, will occupy about one-third of the 2,300 acres in the project. Along the northern shoreline will be a beach and recreational facilities. The southern part of the 27 miles of shoreline has been designated for homes.

Near the community of Gillespie on Rocky Branch Creek is the site of another dam designed to augment present water supplies. This dam and 220-acre reservoir will cost $300,000 and will impound about 1.2 billion gallons of water. In addition to Gillespie, this water system will serve the communities of East Gillespie, Mount Clare, Wilsonville, Sawyerville, and Benld.

ILLINOIS MINERAL PRODUCTION, 1956*



* Preliminary.
Source: Illinois State Geological Survey, *Mineral Production in Illinois in 1956.*

Industrial Developments

A uranium processing plant, scheduled to begin operation in early 1959, will be located near Metropolis, Illinois. This $11.5 million plant, to be located on a 600-acre tract, is owned by the General Chemical Division of the Allied Chemical and Dye Corporation. The plant will make uranium hexafluoride for the Atomic Energy Commission.

The Pittsburgh Plate Glass Company has scheduled the construction of a plant on an 80-acre site in Macon County west of Mount Zion. This $10 million project is to be completed in late 1958. The main manufacturing structure will be a five-story building; other plant facilities will include a clay house, kiln, and structures for water treatment, storage, and sewage disposal.

Mineral Production in Illinois

In 1956, the total value of the minerals produced in Illinois reached an all-time high of $607 million, a gain of 6 percent over the previous high in 1955. This new peak was more than twice the value of mineral output in 1940. The two leading minerals, oil and coal, contributed nearly three-fourths — about $249 and $192 million respectively — of the State total (see chart).

Petroleum production in Illinois has staged a comeback in recent years. Since 1951 secondary recovery practices have provided oil sources that have more than offset the natural decline from the original drillings. Illinois ranked eighth in the nation and led all states lying completely east of the Mississippi River in oil production in 1956, having produced 45 percent of all oil coming from these states.

Coal has fallen to second place in Illinois, although it recovered somewhat in 1955 and 1956. The State coal industry was fourth in the nation and contributed one-tenth of the national total.

Illinois is the nation's leading producer of fluorspar, a mineral used in the chemical, ceramics, and steel industries. The production of this mineral in 1956 was valued at $8.5 million.

Nearly $150 million was contributed by the State's other mineral products — stone, clay, sand and gravel. Continuation of residential and commercial construction at a rapid pace, in addition to the highway building program, sustained the demand for sand, gravel, and stone, and clay products during 1956.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$27,830[a]	1,104,962[a]	$563,458[a]		$16,651[a]	$14,977[a]
Percentage change from Sept., 1957	−23.7	−5.2	+2.9	+6	+6.8	+8.1
Percentage change from Oct., 1956	−10 3	+4.0	+3.1	0	+6.6	+0.4
NORTHERN ILLINOIS						
Chicago	$18,892	833,084	$402,139		$15,166	$13,188
Percentage change from Sept., 1957	−20.8	−5.0	+3.3	+6	+6.4	+7.6
Percentage change from Oct., 1956	+4.5	+3.4	+1.4	+1	+7.1	+2.0
Aurora	$ 627	n.a.	$ 8,340		$ 68	$ 131
Percentage change from Sept., 1957	−39.7		−1.5	+14	+3.9	+0.2
Percentage change from Oct., 1956	+48.9		+1.3	−2	+3.4	+7.9
Elgin	$ 269	n.a.	$ 6,374		$ 44	$ 109
Percentage change from Sept., 1957	−2.9		+1.3	+5	+6.4	+73.5
Percentage change from Oct., 1956	−45.5		+3.8	0	+8.4	+5.0
Joliet	$1,662	n.a.	$12,463		$ 85	$ 94
Percentage change from Sept., 1957	−22.4		+3.4	−7	+10.9	+13.5
Percentage change from Oct., 1956	+331.7		+5.3	−1	+5.7	+5.8
Kankakee	$ 692	n.a.	$ 5,475		n.a.	$ 43
Percentage change from Sept., 1957	+444 9		+1.0	n.a.		+1.9
Percentage change from Oct., 1956	+68.8		+14.1			−2.0
Rock Island-Moline	$ 565	23,699	$10,428		$ 108[b]	$ 144
Percentage change from Sept., 1957	−14.3	−2 0	−5.0	n.a.	+10.1	+26.2
Percentage change from Oct., 1956	−53.9	+43.6	+7.1		+6.0	+0.4
Rockford	$1,680	42,149[c]	$19,730		$ 190	$ 194
Percentage change from Sept., 1957	−8.9	−5.1	+1.7	−2	+10.0	+7.6
Percentage change from Oct., 1956	−5.0	−4.2	+9.9	−7	+6.0	+0.2
CENTRAL ILLINOIS						
Bloomington	$ 109	7,755	$ 5,814		$ 72	$ 87
Percentage change from Sept., 1957	−63.5	−1.6	+1.6	n.a.	+11.6	+19.5
Percentage change from Oct., 1956	−43.8	−2.0	+8.7		+9.7	−9.9
Champaign-Urbana	$ 317	10,725	$ 8,629		$ 85	$ 99
Percentage change from Sept., 1957	−52.8	−4.1	+10.7	n.a.	+28.7	+6.4
Percentage change from Oct., 1956	−21.3	+2.7	+8.8		+8.2	−7.6
Danville	$ 108	11,757	$ 6,827		$ 53	$ 66
Percentage change from Sept., 1957	−53.8	−7.4	+3.0	+3	+13.7	+19.7
Percentage change from Oct., 1956	−69.0	+9.3	+7.2	−9	−11.8	+1.4
Decatur	$ 795	35,491	$13,136		$ 146	$ 107
Percentage change from Sept., 1957	−8.8	+3.9	+5.7	+7[c]	+26.6	+9.4
Percentage change from Oct., 1956	−19.1	+11.2	+11.0	−3[c]	−4.7	−1.4
Galesburg	$ 327	8,194	$ 5,034		n.a.	$ 36
Percentage change from Sept., 1957	−48.3	−9.4	+16.9	n.a.		−3.6
Percentage change from Oct., 1956	+78 7	−0.4	+14.1			+6.3
Peoria	$ 331	50,636[c]	$18,967		$ 252	$ 238
Percentage change from Sept., 1957	−76 0	−11.2	+2.0	+5[c]	+10.0	+3.3
Percentage change from Oct., 1956	−64 9	−1.1	+6.5	−9[c]	−0.2	−2.4
Quincy	$ 239	11,981	$ 5,322		$ 50	$ 60
Percentage change from Sept., 1957	−61.7	−7.2	+0 7	+18	+18.7	−1.7
Percentage change from Oct., 1956	−60.9	+33.2	+10.3	−1	+14.1	+8.2
Springfield	$ 600	34,322[c]	$14,673		$ 126	$ 229
Percentage change from Sept., 1957	−77.1	−0.5	−4.5	+11[c]	+1.6	+7.0
Percentage change from Oct., 1956	−79.1	+5.8	+8.7	+5[c]	−0.3	−5.5
SOUTHERN ILLINOIS						
East St. Louis	$ 199	12,638	$ 9,644		$ 166	$ 80
Percentage change from Sept., 1957	+17.1	−13 9	+1.2	n.a.	+15.0	+52.9
Percentage change from Oct., 1956	−83.5	+0.2	+2.3		−1.0	−3.7
Alton	$ 299	14,377	$ 5,245		$ 39	$ 33
Percentage change from Sept., 1957	+79 0	−3.3	+3.5	n.a.	−4.7	+20.4
Percentage change from Oct., 1956	−12.1	−4.6	+11.1		−3.4	+7.3
Belleville	$ 119	8,155	$ 5,218		n.a.	$ 39
Percentage change from Sept., 1957	−19 6	−23.4	+6.6	n.a.		+13.0
Percentage change from Oct., 1956	−20 7	+19.8	+4.5			−17.8

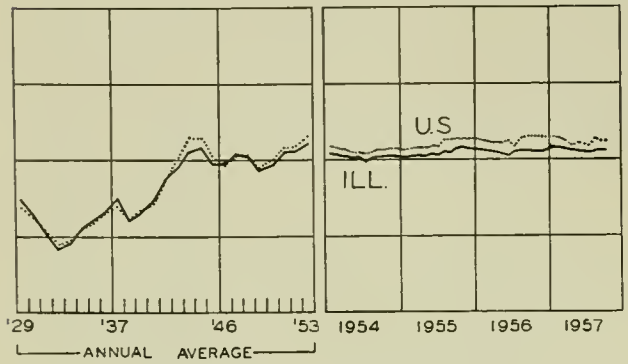
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for September, 1957. Comparisons relate to August, 1957, and September, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending October 18, 1957, and October 19, 1956.

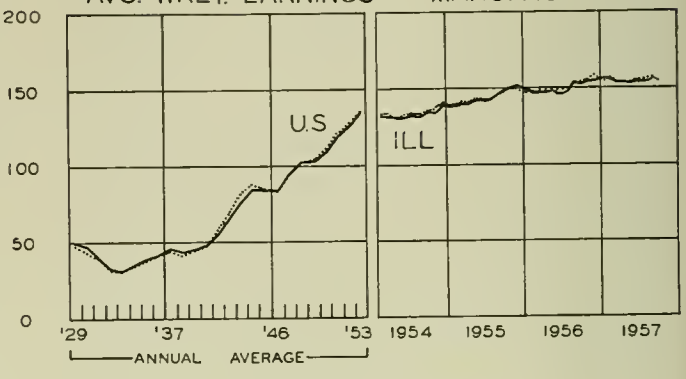
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

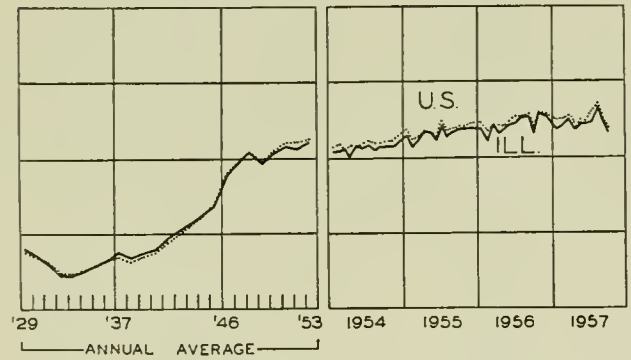
EMPLOYMENT–MANUFACTURING



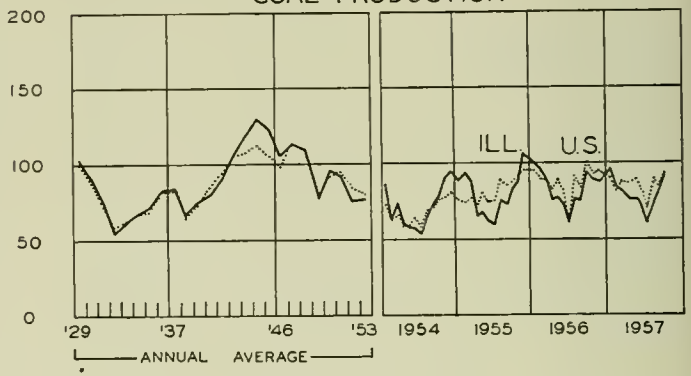
AVG. WKLY. EARNINGS — MANUFACTURING



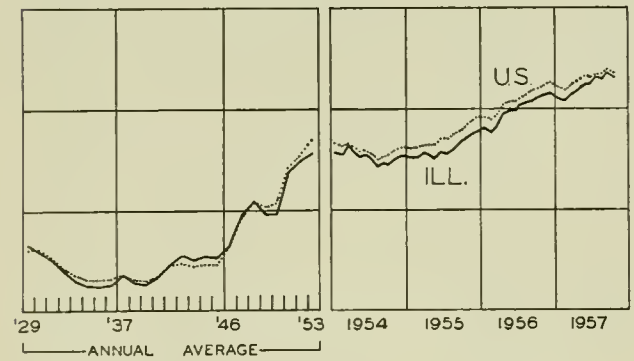
DEPARTMENT STORE SALES



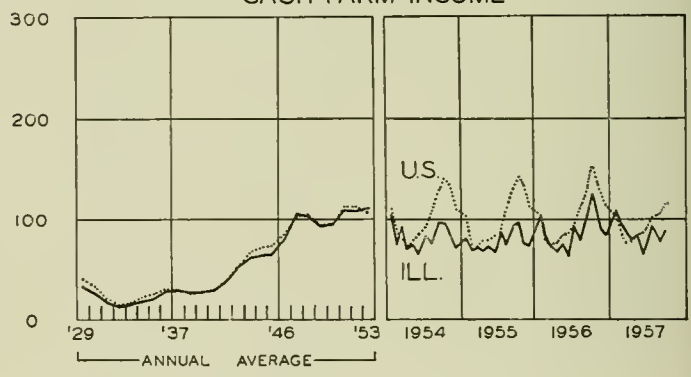
COAL PRODUCTION



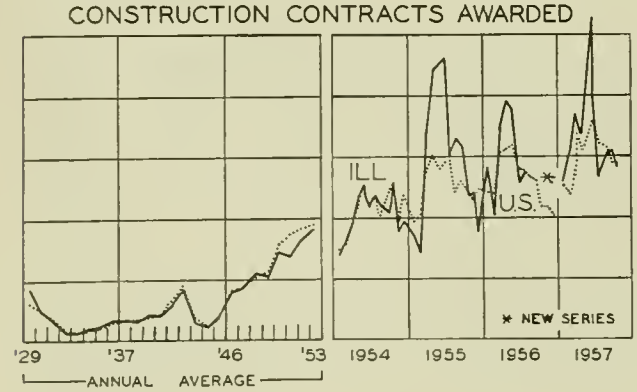
BUSINESS LOAN



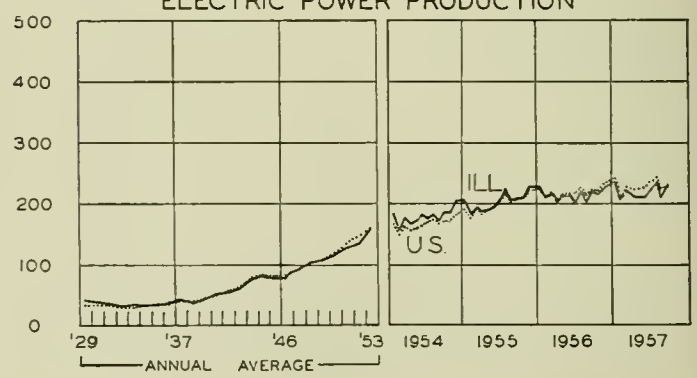
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN DECEMBER

Department store sales were one of the few bright spots in the December business picture. Preliminary reports indicate that dollar volume was slightly higher than in December, 1956. This was the first time since August that the 1957 month has been above the corresponding month for 1956. However, the increase was not sufficient to raise physical volume to the 1956 level.

Most other indicators of business activity continued to decline. Industrial production, which fell 3 percentage points in November, dropped another 3 in December to 136 (1947-49 = 100). Output of steel, automobiles, paper, paperboard, coal, petroleum, and lumber contracted more than seasonally. Personal income experienced a reduction for the fourth successive month, falling $2.5 billion to an adjusted annual rate of $343 billion. Unemployment, which jumped 700,000 from mid-October to mid-November, rose nearly 200,000 to 3.4 million.

Wholesale prices moved up slightly in December, chiefly as a result of advances in prices of certain farm products and related processed foods, particularly a 5 percent jump in meats. Official estimates anticipated stability in the consumer price index over the next few months after its rise from 121.1 in October to 121.6 in November. This last increase was a result of the increase in the price of new automobiles.

The Year in Review

The downturn in the latter part of the year was the dominant feature of the economy in 1957. Gross national product for the year as a whole showed an increase of nearly 5 percent over 1956. The fourth quarter, having dropped back from the third quarter high, was at the same rate as the average for the year. The larger part of the year's increase to a record dollar volume was attributable to price advances, so that there was little gain in real terms over the preceding year. Industrial production averaged about the same as the preceding year but was falling sharply at the end of the period.

A fourth-quarter decline in business investment, mainly in inventories, was one of the principal factors underlying the downturn. Outlays for new plant and equipment set a new record of $37 billion for the year but leveled off in the last quarter and, in real terms, turned down. New construction reached a record high of $47.3 billion, about 3 percent above 1956, but all the gain was due to higher construction costs. Consumer expenditures set a new dollar record; retail sales amounted to about $200 billion, some 4 percent above the preceding year. This series also weakened in the last quarter, reflecting declines in personal income that began in September.

The downturn in activity led the Federal Reserve Board to lower the discount rate and brought an easing of money market conditions. It also worked with the excitement created by the Sputniks in contributing to moves by the Federal government to step up the rate of expenditures for military equipment.

Manufacturers' Sales Continue Slide

November saw a further decline in sales by manufacturers, the seasonally adjusted total of $27.4 billion falling $700 million or 2 percent below October and nearly 5 percent below November, 1956. Most of the reduction was in sales of durable goods industries, with all major sectors participating except transportation equipment. A 2 percent drop in sales by nondurable goods industries affected mainly chemical, paper, and petroleum producers.

New orders placed with manufacturers were down more than 10 percent from the corresponding month in 1956 but were unchanged at $26.2 billion from October, after seasonal adjustment. Expansion of contracts placed with aircraft companies offset widespread reductions in new orders received by other heavy-goods industries and by nondurable goods industries. Since shipments exceeded new orders by $1.4 billion, unfilled orders fell from $53.2 billion in October to $51.8 billion in November. A year earlier they totaled $63.4 billion.

Manufacturers reduced inventories by $300 million in November, to $53.8 billion, after allowance for seasonal factors, but they were still $1.6 billion above the year-ago level. Most of the reduction from October to November occurred in primary metals, machinery, and aircraft.

Installment Debt Rises

Consumers increased their installment debt by $92 million in November, bringing the total outstanding to $33.6 billion, some $2.4 billion above the year-earlier figure. The gain over October was far short of the $255 million increase in November, 1956, and below the monthly average of the first three quarters of 1957 after seasonal adjustment. A drop in automobile paper was more than offset by expansion in other consumer goods paper, personal loans, and repair and modernization loans.

Non-installment credit went up $164 million to $9.9 billion at the end of November. Charge accounts rose $144 million and single-payment loans increased by $53 million whereas service credit fell $33 million.

ECONOMIC DEVELOPMENTS IN EUROPE · · By Robert E. Hill · · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Investment Policy Re-examined

An article appearing here a year and a half ago concluded, "There may never be a better time to switch from stocks to bonds." A year later, when stocks were again at roughly the same peak level, the tightening of the money market had driven bonds lower, so that a still better opportunity for switching existed.

Since then, the situation has again changed. Stocks have dropped from the peak, with dividends remaining high for the time being, and bonds have recovered from their 1957 lows, regaining a good part of the previous year's losses. The improvement in stock yields and reduction in bond yields since the reversal suggest the need for a re-examination of investment policy.

With respect to bonds, the situation appears fairly clear-cut. With business on the downgrade, the recent easing of money and capital markets will probably continue. Since the downturn is dominated by declining investment in inventories and in plant and equipment, business demands for funds for these purposes have already eased somewhat and will continue to ease as the decline progresses. Monetary policy will also be shifted further under these conditions, toward more aggressive action for easing money and capital markets, in order to give the economy all possible support. It is highly probable, therefore, that interest rates will continue to fall and bond prices to rise, at least through the first half of 1958. No change in this prospect is likely as long as business remains low. But the gains to be made from rising bond prices are always limited, so that the outlook for stocks is more important.

Implications of the Stock Market for Business

Business and the stock market are, of course, interacting. Rising business generally means higher earnings and the stock market tends to capitalize the improvement by bidding up prices. Conversely, rising stock prices tend to stimulate business confidence, and this leads to the undertaking of real investments that might otherwise be considered too risky.

Under ordinary circumstances, the effect of the stock market on business is not important. During the great market boom of 1928-29, however, investment expenditures for all kinds of structures and equipment tended to run ahead of the rates called for by statistical relationships, which describe the "normal" behavior of investment over long periods of time. Similar patterns have developed during the past two years. Under these extreme conditions, stock prices themselves are bid up with too much enthusiasm and get out of line with the "normal" determinants of stock values, namely, earnings and dividends. The economy is then, in effect, on a spree in which each kind of spending tends to stimulate the others.

Consumers as well as businessmen react with enthusiasm when stock prices are rising. With only a slight lag, the market stimulates various kinds of luxury spending, especially for certain kinds of services and durable goods. Building of yachts and penthouses is practically confined to this kind of boom. A study of auto sales since the mid-1920's indicates that a one-point rise in the Dow-Jones industrials tends to sell 6,400 cars on the average. In years of strong market advance, this lifts car sales by over half a million units. It helps to explain the tremendous sales of 1955 but is by no means a full explanation for that exceptional year.

Unfortunately, this kind of special effect operates on the downside as well as on the upside. A letdown from the boom tends to depress sales and activity. The fact that spending and stock prices were too high during the excesses of the boom means that they have just that much further to fall in the reaction. The sobering effects of the recent decline are apparent. It is almost amazing how much the attitudes of businessmen and consumers have changed in the last six months.

Implications of Business for the Stock Market

The stock market itself has recently been in the process of eliminating its own excesses. If the future be ignored for the moment, the break would have to be interpreted as based on a correction of past excesses, since earnings were down only a little in 1957 and dividends were a little higher than in 1956.

Some of the optimists take heart from the fact that the recent break was not an all-out panic like that of 1929. It may be pointed out, however, that this mild behavior may be attributed entirely to the changed character of the market, in which case it tells nothing about the underlying influences on prices. The market has been changed by law and by methods of investment. In the current boom there have been no holdings on small margin and therefore no significant margin calls. Borrowing has remained trivial in relation to values. Short selling has been restricted, not only by being confined to the "plus tick," but by unfavorable tax treatment. Furthermore, funds coming into the market have much more generally been channeled through financial institutions, whose professional managers are not so easily panicked as the small speculators. None of these are reasons for believing that prices will not deteriorate. The decline may be more gradual but go just as far over an extended period.

Others take heart from the mere fact that the market has undergone a "correction"; it is said to be "back to normal." Freed of the handicap of last year's excesses, the market is admittedly in "a better position to go places now." But only if business were going to be back on an upward trend would it be logical to look for a rising

(Continued on page 8)

AIR TRAVEL IN ILLINOIS

Air travel in America has expanded at an unprecedented rate in the decade since World War II. In 1956, with an all-time high of 1,347 airliners in service, domestic airlines carried nearly 42 million passengers, an increase of 241 percent since 1946. Much of this growth can be attributed to factors such as better equipment, facilities, and service, and an improving safety record.

Civilian aviation has also seen a spectacular increase in business use of executive-type and utility aircraft. More than one-third of the 65,000 planes in the civilian air fleet last year were utilized for this type of flying. This trend has resulted from the decentralization of businesses and the fact that many businesses are off airline routes. Use of the airplane for spraying and dusting purposes, as well as for general utility, has also attracted farmers and ranchers. The Aircraft Industries Association of America reported that one of every seven cultivated acres in the United States, along with millions of acres of forest land, were seeded or treated from the air by some form of chemical application in 1955.

Air Travel in Illinois

Illinois is among the nation's leading states in air transportation. In commercial air travel the State is served by 21 major airlines, seven of which schedule international flights. More than 4 million passengers embarked in Illinois during 1956; 95 percent of these departures were from Chicago. Downstate Illinois has a number of smaller airlines, including three major feeder lines which originate or terminate in Chicago. Following Chicago in passengers boarded were Moline (47,000), Peoria (37,000), Springfield (28,000), Rockford (28,000), Champaign (13,000), and Decatur (11,000). Illinois is also crossed by airline routes connecting at St. Louis, thus giving most of the State easy access to major routes.

The State's busiest airport, Midway Airport in Chicago, is also the world's busiest airport. More than 7 million passengers passed through it in 1956. Part of Chicago's increasing traffic is being systematically shifted to O'Hare Field, the world's largest airport, twenty miles north of Midway. O'Hare, which handled more than 1 million passengers last year, is ten times larger than Midway in land area and will be capable of serving an expected 17 million passengers when fully completed about 1975.

Illinois ranked third in total civil aircraft in 1956 with 4,788 registrations, of which three-fourths were active. Illinois also ranked third among the states in air carriers, both scheduled and irregular, with 184.

Besides a 76 percent increase in passenger traffic boarded in the State between 1952 and 1956, Illinois also made gains in air shipping in the same period when cargo and airmail tonnage originating within the State rose 30 and 54 percent, respectively. Chicago continued to dominate the volume of shipments with 98 percent of the airmail tonnage and 97 percent of the cargo tonnage.

The State's Airport Facilities

In 1956, Illinois had a total of 121 public-use airports and 525 private-use fields. In all, 98 of its 102 counties had landing facilities of some type, although 36 counties did not have public airports and 11 were without private ones. There were 124 commercial airfields operating in Illinois during 1956, a decline from the 166 in 1950. This reduction is attributed to the closing of those fields which existed primarily on revenues from flight training under the provisions of the GI Bill. When these airports lost commercial value, many became private landing strips. Although the number of commercial ports has shrunk, the over-all total of Illinois airports increased between 1950 and 1956 because of the growing numbers of private landing fields.

Probably the greatest postwar aid to national airport development has been the Federal Airport Act, which was passed by Congress in 1946. The act authorized Federal appropriations of $520 million, of which $326 million had been spent as of February, 1957, for development and improvement of airports in the United States and its territories. Over 2,400 projects had been completed at the close of 1956, representing 73 percent of the projects programmed under the act.

Although Illinois ranked only tenth in total number of projects programmed (92 projects at 31 airports), it stood third in total funds for these projects ($43 million). Of the 92 projects, Illinois had a total of 65 with construction completed. The Illinois Department of Aeronautics feels that this expanding airport development program, coupled with the trend toward industrial dispersion, should place the State in an excellent position to attract new industries to cities of 10,000 population or less, in which an estimated 30 percent of all new factories locate.

Private Flying

Although one-fifth of total hours and miles flown in civil aviation during 1956 was devoted to pleasure flying, the practice has been waning nationally in recent years. For example, between 1950 and 1955 the total estimated miles flown for pleasure declined 11 percent while the number of hours of pleasure flying dropped 14 percent. However, this decline, stemming largely from the gradual expiration of veterans' rights under the GI Bill, was offset by the upswing in commercial and business flying.

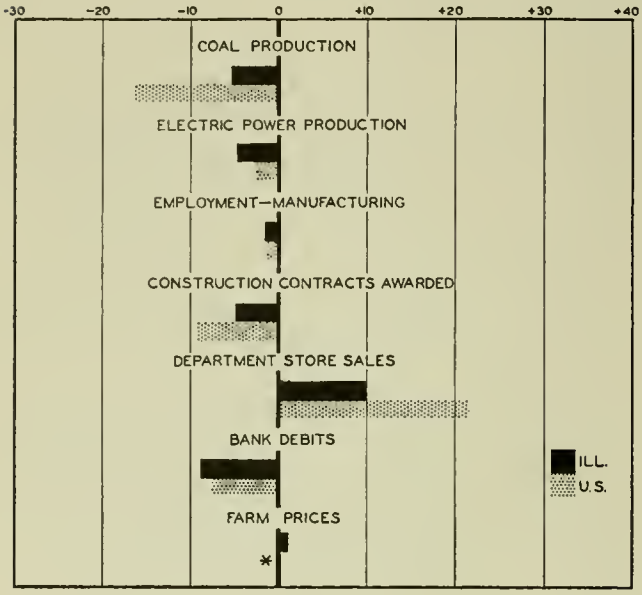
The high cost of private craft has been the major deterrent to expanding popularity of pleasure flying, as illustrated by a recent survey showing the median income of the private plane owner to be $25,000. Until cheaper aircraft become available to the average consumer, pleasure flying probably will not increase significantly.

Approximately three-fifths of the State's 42,000 registered pilots held private craft operating certificates in 1956. Illinois had more than 15,000 active pilots (those with current medical certificates), or nearly 6 percent of the national total of active fliers eligible to operate various types of aircraft, including airliners. More than one-fifth of the State's active pilots were students last year. Serving them were the 24 CAA-approved flight and ground schools, 18 of which provided flight training only.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1957, to November, 1957



* No change.

ILLINOIS BUSINESS INDEXES

Item	November 1957 (1947-49 =100)	Percentage change from Oct. 1957	Percentage change from Nov. 1956
Electric power[1]	221.2	− 4.7	+ 3.6
Coal production[2]	88.5	− 5.5	− 0.3
Employment—manufacturing[3]	103.9	− 1.5	− 4.7
Weekly earnings—manufacturing[3]	155.0[a]	− 1.3	+ 1.1
Dept. store sales in Chicago[4]	115.0[b]	0.0	− 6.5
Consumer prices in Chicago[5]	125.6	+ 0.7	+ 3.8
Construction contracts awarded[6]	268.7	− 4.9	− 7.5
Bank debits[7]	173.2	− 8.9	− 1.4
Farm prices[8]	82.0	+ 1.2	+ 3.8
Life insurance sales (ordinary)[9]	282.2	− 2.3	+ 5.0
Petroleum production[10]	126.6	− 4.3	+ 4.0

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] October data; comparisons relate to September, 1957, and October, 1956. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	November 1957	Percentage change from Oct. 1957	Percentage change from Nov. 1956
	Annual rate in billion $		
Personal income[1]	345.4[a]	− 0.1	+ 0.1
Manufacturing[1]			
Sales	328.8[a]	− 2.5	− 3.9
Inventories	53.8[a, b]	− 0.6	+ 3.1
New construction activity[1]			
Private residential	17.7	− 3.5	− 3.1
Private nonresidential	17.7	− 3.5	+ 5.4
Total public	14.0	−17.4	+11.7
Foreign trade[1]			
Merchandise exports	20.1[c]	+ 8.6	+ 0.1
Merchandise imports	13.7[c]	+13.3	+ 1.8
Excess of exports	6.4[c]	− 0.3	− 3.4
Consumer credit outstanding[2]			
Total credit	43.5[b]	+ 0.6	+ 6.6
Installment credit	33.6[b]	+ 0.3	+ 7.5
Business loans[2]	31.5[b]	− 0.7	+ 3.8
Cash farm income[3]	n.a.		
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	139[a]	− 1.4	− 4.8
Durable manufactures	153[a]	− 0.6	− 7.3
Nondurable manufactures	128[a]	− 1.5	− 0.8
Minerals	124[a]	− 2.4	− 4.6
Manufacturing employment[4]			
Production workers	102	− 1.2	− 5.3
Factory worker earnings[4]			
Average hours worked	98	− 0.8	− 3.2
Average hourly earnings	158	+ 0.5	+ 3.4
Average weekly earnings	155	− 0.3	+ 0.1
Construction contracts awarded[5]	262	− 9.3	0.0
Department store sales[2]	134[a]	+ 3.9	− 3.6
Consumer price index[4]	122	+ 0.4	+ 3.2
Wholesale prices[4]			
All commodities	118	+ 0.2	+ 1.8
Farm products	92	+ 0.4	+ 4.6
Foods	106	+ 0.9	+ 2.8
Other	126	− 0.1	+ 1.2
Farm prices[3]			
Received by farmers	89	0.0	+ 3.5
Paid by farmers	119	+ 0.8	+ 2.6
Parity ratio	81[d]	0.0	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp. [a] Seasonally adjusted. [b] As of end of month. [c] Data are for October, 1957; comparisons relate to September, 1957, and October, 1956. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1957					1956
	Dec. 28	Dec. 21	Dec. 14	Dec. 7	Nov. 30	Dec. 29
Production:						
Bituminous coal (daily avg.) ..thous. of short tons	1,144	1,563	1,488	1,500	1,618	1,728
Electric power by utilities ..mil. of kw-hr	11,218	12,412	12,570	12,315	11,613	11,196
Motor vehicles (Wards) ..number in thous	92	163	168	162	132	112
Petroleum (daily avg.) ..thous. bbl	6,940	6,915	6,884	6,850	6,829	7,392
Steel ..1947-49 =100	79	101	103	106	107	135
Freight carloadings ..thous. of cars	410	590	603	618	554	488
Department store sales ..1947-49 =100	147	274	266	215	159	112
Commodity prices, wholesale:						
All commodities ..1947-49 =100	118.4	118.2	118.1	117.9	117.8	116.3[a]
Other than farm products and foods ..1947-49 =100	125.8	125.8	125.8	125.7	125.6	124.7[a]
22 commodities ..1947-49 =100	84.7	84.7	84.9	84.5	84.4	92.6
Finance:						
Business loans ..mil. of dol	32,250	32,278	31,819	31,573	31,527	31,313
Failures, industrial and commercial ..number	166	276	269	287	235	174

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for December, 1956.

RECENT ECONOMIC CHANGES

Auto Output Up

Passenger car production in the United States rose to 6.1 million units during 1957 despite a slight decline in retail sales. Total output was 5.4 percent above 1956, when 5.8 million cars were produced, and the fourth highest in the history of the auto industry. Highest production for any single year was in 1955 when the industry assembled about 7.9 million cars. The divergence between the 1957 and 1956 figures for production and sales was brought about by changes in dealers' stocks, which declined in 1956 but increased about 200,000 in 1957.

General Motors, after claiming a record 52.7 percent share of industry output with some 3.1 million cars in 1956, built only 2.8 million units last year and saw its share drop to about 46 percent. Much of the drop in the GM share was taken up by Chrysler (see chart), which increased production from about 870,000 units in 1956 to some 1.2 million in 1957. This advance reflects the comeback in retail sales experienced by Chrysler in the last two years.

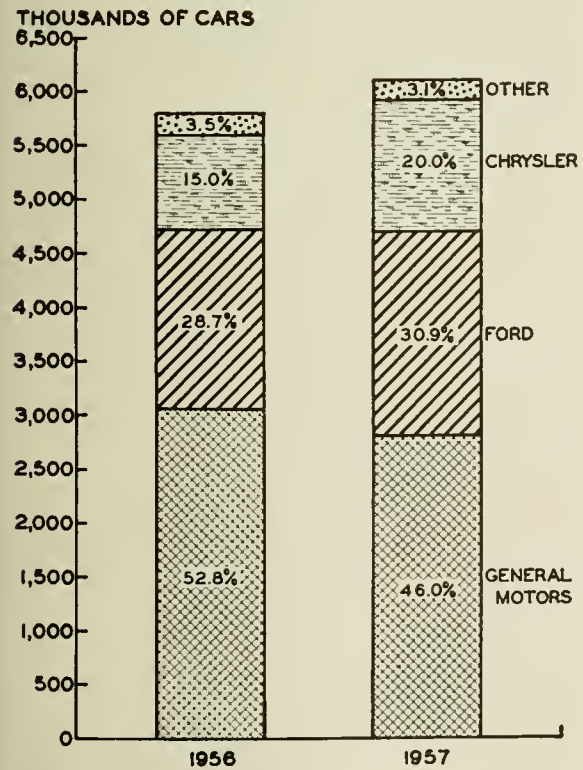
Ford also showed improvement over 1956, from about 1.7 million to 1.9 million units last year. However, Ford's share of industry output advanced only about 2.2 percentage points compared with Chrysler's 5 point jump.

Housing Starts Hold Steady

Private nonfarm housing starts in November totaled 75,700, off seasonally from the 87,000 starts of the previous month. Public starts were down sharply from the relatively large number, 8,000, in October to about 3,200.

Although the number of private houses and apartments put under construction in November represented a seasonally adjusted annual rate of 1,010,000 units, a total of less than a million units is expected for the year. The actual number of private dwelling units started during the January-to-November period was 926,700, about 10 percent less than the 1956 figure for the same months and the lowest total since 1949.

AUTO PRODUCTION



Source: *Wall Street Journal,* January 3, 1958.

Profits Fall

Profit margins of manufacturing corporations declined during the third quarter of 1957 to the lowest level since the recession year of 1954. The latest quarterly report made public jointly by the SEC and FTC stated that manufacturers' earnings after taxes averaged only 4.7 cents per sales dollar, compared with 5.0 cents in the previous quarter and 4.9 cents per sales dollar in the third quarter last year. The last time average profit margins fell below 4.7 cents was during the third quarter of 1954 when the ratio stood at 4.4 cents.

The annual rate of profit after taxes on stockholders' equity also hit a three-year low during the quarter, dropping to 10.5 percent. The rate, which stood at 11.6 percent in the previous quarter, was the lowest since the corresponding 1954 period, when it fell to 9.3 percent.

These declines were registered despite record sales and near-record total earnings for a third quarter. After-tax profits for the three-month period reached $3.7 billion on sales of $79.6 billion.

For the first nine months of 1957 total earnings after taxes amounted to $11.9 billion, about equal to the 1956 level, whereas sales increased about 6 percent, from $226 billion in 1956 to $240 billion.

Defense Spending Rising

Defense expenditures began to stabilize during November after a seven-month decline caused by the Pentagon's midyear economy drive. At the present time military spending is still at the turning point. The pre-Sputnik economy drive, which began after spending shot up almost to a $42 or $43 billion annual rate in April, has already had its effect, while the post-Sputnik missile speed-up has not yet begun to influence spending to any great extent. It is now anticipated that average month-to-month outlays will be at about a $39 billion rate for the rest of the present fiscal year.

Subsequently it is expected that defense spending will move above the $40 billion annual rate as the United States attempts to surpass Soviet missile achievements. In addition, the portion of the defense dollar going for major procurement, the biggest potential spending-booster, may rise as high as 40 percent compared with the present 35 percent share. The speed-up in defense spending, however, will not have maximum immediate dollars-and-cents impact on the economy since many of the items involved take 18 to 24 months to produce before they are delivered and paid for.

Labor Situation Improved

The Bureau of Labor Statistics reported that only 1.4 million workers were involved in strikes during 1957 compared with 1.9 million in 1956. The 1957 total was the lowest figure since 1946 when 4.6 million workers were idled in a rash of postwar strikes.

Man-days of time lost through strikes in 1957 amounted to 16 million, less than half the total of 33.1

(Continued on page 8)

ECONOMIC DEVELOPMENTS IN EUROPE

ROBERT E. HILL, Assistant Professor of Finance

Throughout 1957 international tensions seemed to be unusually pronounced in comparison with the recent postwar years. The observation seems even more valid now, when in retrospect it is possible to appraise the economic developments in Europe during the past year apart from overtones of international politics and the beginning of the "Space Age."

The year just ended was not unusual in showing that change was the dominant factor in European economic life. In each of the nations to be considered here — Great Britain, France, West Germany, and Italy — changes were both the cause and the effect of developments elsewhere in Europe and abroad. Resulting strains took the form of considerable, even serious, inflationary pressure and of a disequilibrium in balances of payments which led a number of industrial nations in Europe to undertake major reconsideration of their foreign trade policies.

Prevalence of Full Employment

With minor exceptions, there was no unemployment anywhere in Europe in 1957. This was true despite the fact that the rapid rate of economic expansion which had characterized the economy of Western Europe for more than four years slowed down, beginning in 1956.

At first glance the generally optimistic character of this most sensitive indicator seems reassuring. In fact, few currently available appraisals for 1958 have failed to count it heavily on the positive side. Nevertheless, this narrow margin of manpower reserves made 1957 a significant year, employment-wise, from a longer-range point of view. Specifically, it was the first postwar year in which the great majority of the nations of Western Europe faced the realization that they had almost reached full utilization of their productive resources, with small available reserves of industrial capacity — a situation which had either been a threatened or a partial reality for some two years.

In West Germany, for instance, whose gross national product rose from 97 billion marks in 1950 to 189 billion marks in 1956, the problem of unemployment was a minor one in 1957. But it seems inevitable that the remarkable rate of growth of the German economy of the past seven years would be slower, perhaps substantially, in 1958 and the years just ahead. About one-half of the 92 percent increase in industrial production since 1950 has been due to fuller employment of a work force swelled by immigrant refugees at the close of World War II and the other one-half to increased productivity. With little further flexibility in employment, the rate of real expansion in the near future will have to be limited to productivity gains reinforced by long-term factors such as growth in population. Similar examples could be cited, although in lesser degree, for both Great Britain and France.

In Italy, however, the problem of unemployment has stayed on despite the rapid growth of the past eight years, which has increased net domestic product by more than 60 percent. This has been largely due to the fact that much of Italy's expanded output has been achieved with more intensive use of already employed workers.

Nevertheless, within each of these nations as elsewhere in Europe, the most critical single employment factor is the lack of available manpower in the age bracket 35 to 45 years. This is of course due to the low birth rate as a result of World War I losses, coupled with the heavy losses of World War II. Consequently, understaffing and overcentralization are common, and these circumstances, in combination, reduce flexibility of organization and increase the burden on top executives. Thus, younger people in increasing numbers must be trained to take over added responsibility earlier than would otherwise be necessary. When to this situation is added the manifold complexities of modern business brought on by automation, electronics, union problems, government regulations, and growth in size of business, the employment situation for 1958 and the years ahead seems destined to command a central place in the thoughts and plans of European businessmen and governments alike.

Translating Resources into Output

With little of her labor supply tied up in military efforts, West Germany has effected an outstanding postwar build-up in production. Thus a defeated nation with a minimum of outside help has been able to do such an effective job of expanding output and exports as to make herself a "hard currency" country.

This situation led both Great Britain and France, during 1957, to make serious efforts to lessen their military commitments. Although France has as yet been unable to do so in the case of Algeria, Great Britain moved strongly in this direction after the withdrawal from Suez. Available indexes of industrial production, using 1953 as a base of 100, show that Great Britain has increased her industrial output by 18 percent as of mid-1957; France by 40 percent; Italy by 46 percent; and West Germany by 38 percent.

During the past year, manufacturing industries in Great Britain employed 38 percent of the total working population of about 25 million. The strongest upward influence in total manufacturing activity in the early part of 1957 was the continued recovery of automotive output to a record level — some 31 percent higher in the case of cars than in the first half of 1956. Throughout the year, construction in Great Britain remained close to its late 1956 peak, reflecting in part the growth of investment by the nationalized industries which the government permitted, while at the same time work on housing continued a moderate but definite decline to the year's end.

In West Germany, steel, capital equipment, heavy electrical equipment, heavy trucks, and television sets continued to support the six-year export boom, although at a slightly reduced level. However, the offsetting factor which enabled 1957 to end on a highly favorable performance note was the increase in the West German market itself. The typical frugality of the German people seemed to have been temporarily put aside as preholiday spending took on an active pace.

In France, where about a third of all fuel needs and almost half of the industrial raw materials used are imported annually, 1957 was a year of successive economic frustrations brought on primarily by the fact that foreign exchange resources were exhausted in 1956, resulting in a foreign account deficit of about $1.5 billion by the latter part of 1957. The added seriousness of the situation was due to the threatened curtailment of the tremendous growth of industrial capacity and entrepreneurial spirit which has taken place in France in the past six years. However, the manufacturing of synthetic fibers kept well apace of the rise in world production, while output of

agricultural machinery largely for home use furthered a powerful effort to overcome an age-old lag in technical progress in this field. On the other hand, construction of dwelling units declined during 1957, as compared with 1956; estimates now available indicate that the year's activity in construction of much-needed family housing slowed by as much as 14 to 18 percent.

The rapid growth of Italian exports during 1956 and 1957 augur well for the year ahead. During the year just ended finished goods and semimanufactures accounted for almost three-fourths of Italy's export trade — indicating that a substantial number of products are competitive and will gain from the lowering of tariff barriers which will come as a result of the Common Market treaty. Internally the major economic problem confronting the Italian government is the continued build-up of agricultural South Italy, which has suffered chronic unemployment. Housing construction took place at an increased rate last year with building permits issued at midyear running 17 percent above those issued in 1956, although this activity decreased toward the year's end.

Dangers in the Investment Boom

That the private investment boom which began in 1954 came to an end in 1957 is well established by now in the thinking and planning of key European nations, as well as in the United States. The turn coincided with the peak pressures on money and capital markets. Whereas all of these nations had viewed high investment activity as necessary to a solution of their postwar problems of unemployment and underproduction, the attendant inflationary dangers were so pronounced by mid-1957 as to provoke various governmental actions which, while a step in the right direction, may yet prove to have been too mild.

In France and Great Britain, and in Italy to a lesser degree, producers of raw materials and basic services have been expanding capacity — chiefly in the manufacturing industries — without much thought, until recently, of the accumulating inflationary pressures. Government stockpiling has added to this quest for more capacity. Apparently a considerable justification for such investment expenditures has come from calculations of long-term growth potential, such as those set forth in the Paley Report and similar studies. Huge commitments have been made on the dubious assumption of regular expansion of demand, both within Europe and from the United States.

With the prevailing governmental sensitivity to excessive investment outlays carried over into 1958, such outlays will probably be lower. Even if they do not decline of their own accord, it seems inevitable that expenditures of this nature will be curtailed. To cite just one example — Great Britain, whose capital spending rose by 23 percent in 1955, 20 percent in 1956, and approximately 26 percent in 1957, has taken definite steps to ensure for the year ahead a decrease of at least 5 percent from 1957. France faces in the coming months an even more serious inflationary problem than Great Britain and has under study an anti-inflation program which places reduced capital expenditures high on the list of partial solutions.

In both Italy and Germany, where interest rates were highest to begin with, the investment boom of recent years has been reflected to a smaller degree in rising money costs. In Germany, as a matter of fact, a reversal of interest rate movements began in the year just ended. When one recalls that the movements in long-term interest rates are a reflection of the relative demand for and supply of capital, the 1954-to-1957 rise reflects, quite clearly, the expanded economic activity in the European economy coupled with belated use of monetary restraint to combat inflationary pressures.

Whether or not the drop in investment which appears certain, at least in the early months of 1958, is only temporary or whether it may trigger a protracted decline awaits the actions of other economic components of each nation, such as consumers, business, foreign markets, and government.

Conflict of Monetary and Production Policies

In retrospect, 1957 may be seen as a year of monetary crises in Europe and the free world; and, inevitably, economic growth and development in the year ahead will be heavily affected as individual nations pursue multifarious strategies to avoid further crises. To some extent, policies of this kind will conflict with the goal of maximizing production.

Two chief factors — inflation, both domestic and world-wide, and the state of foreign trade — lay at the base of 1957's monetary crises in Europe. In Great Britain, the year just ended was a year for tightening the screws on its economy, primarily for the purpose of saving the pound. Last summer's strain on the British economy was caused by an increased business activity, a tightened labor market, and rising wage rates and cost of living. Nevertheless, Britain's "current account" surplus (the excess of exports of goods and services over the value of imports) increased. The British government took strong, perhaps drastic, steps to hold inflation by raising the bank rate to 7 percent, the highest since 1920 and double the 3.5 percent then in effect in the United States, and by announcing restrictions on the volume of capital spending and the amount of bank loans.

On the continent, France, with both inflation and balance of payments crises at hand, witnessed a sharp advance in interest rates as long-term rates reached 6.1 percent and short-term rates 7.4 percent in September, 1957. Domestic prices rose rapidly during the period, reaching 109 in September from 104 at the start of the year (1953 = 100). Government action failed to correct the critical balance of payments problem, bringing on a selective devaluation in late August. This raised the official exchange rate of the franc for specific transactions from 350 to 420 per United States dollar. As 1957 ended, France requested permission to withdraw the remaining $262 million in its "quota" in the International Monetary Fund, thus providing funds to pay for badly needed imports of coal, machinery, and other industrial raw materials. With further credit from the community of free nations now on a very tenuous basis, France in 1958 must move as rapidly and forcefully as possible toward long-overdue fiscal reform. Premier Gaillard's budget, and his government, are being carefully watched from both sides of the Iron Curtain.

Italy's balance of payments developed favorably throughout the past year, despite that nation's chronic need for vital materials such as petroleum, cotton, copper, and substantial amounts of wheat, meat, dairy products, and coal. The year's trade deficit was held to mild proportions largely because of increased "invisible" receipts, chiefly from tourists in Italy and emigrants' remittances. Italy is not faced, at the outset of 1958, with the problems of inflation which beset other European nations, owing

primarily to the flexibility in labor supply and other resources which still exist in varying degrees of underutilization.

In West Germany, as opposed to other European nations, interest rates declined in 1957. This decline was largely due to the heavy flow of funds into Germany to pay for its exports to other countries, coupled with increasing amounts of speculative capital which have been moving into Germany for more than two years. As previously noted, her great success in production has made West Germany a hard currency country and although government authorities anticipate that imports will soon start to rise at a faster rate than exports, the effect of German defense purchases abroad and recent German tariff cuts has yet to appear in the trade figures. Dr. Erhard, Economic Minister, has proposed what he calls the "peoples' capitalism" plan which, along with other forces, is designed to relieve pressures caused by the external and internal structural imbalance of Germany's huge export surplus. The West German economy may well hold the key to the success or failure of the long-awaited, tariff-erasing European Common Market which took effect on January 1 and which is designed to provide wider complementarity of member nations.

Whether or not 1957's economic experiences will be turned into profit or loss in 1958 is, at this point, problematical. It seems clear, however, that in each of the nations considered here, as throughout most of the free world, the expansion of the private economy of the past three years is not likely to be resumed, at least in the first half of 1958; that relaxation of existing credit restraints will receive early attention of heads of government throughout Europe; and that countervailing government policies of the anti-recessionary variety will be made ready, if not actually applied, in certain areas of the European economy.

Investment Policy Re-examined

(Continued from page 2)

market. Its future will now tend to be dominated by business developments during the months ahead.

Reasons why the current decline in business will probably continue throughout 1958 were given here last month. Under these conditions, the "trend" of corporate earnings will also be downward. Several aspects of the situation suggest that the decline in earnings will be much larger than the decline in business: Costs are still rising, and with the growth of excess capacity, competition is increasing and putting a squeeze on profits; overhead charges have been rising sharply with the expansion of facilities and will cut profit margins more sharply still as volume falls; and finally, the reversal of price trends will turn inventory revaluation profits into losses. A decline of 5 to 10 percent in sales volume would probably be accompanied by a 25 to 30 percent decline in profits during the next year.

In other words, it is not enough to say that the market has got back to "normal." The question then becomes, Where will the "norm" be going? The probabilities favor a bearish answer. The decline in market prices in 1958 will probably be as large as that of 1957.

The bear markets following major postwar booms have always been long and severe. No doubt there will be minor recoveries interrupting any decline covering a span of two years or more. These interim rises may be regarded as opportunities for switching by those who are still too heavily in stocks. VLB

Recent Economic Changes

(Continued from page 5)

million man-days lost the previous year. The figure for the big strike year of 1946 was 116 million. The trend to longer-term contracts, which held contract negotiations down in 1957, contributed to the relatively peaceful year.

There were thirteen major strikes (those involving 10,000 or more workers) during the year. These major strikes idled 300,000 workers and accounted for 3 million man-days lost. In 1956, there were only twelve such major strikes, but these included the basic steel strike involving 750,000 workers and 19 million man-days.

Power Production Up

Electric power production in December averaged about 12.2 billion kilowatt-hours per week compared with 11.9 billion kilowatt-hours in December, 1956. For the year as a whole, output amounted to approximately 636 billion kilowatt-hours, nearly 6 percent above 1956 (see chart). This, however, compares with a gain of almost 10 percent between 1955 and 1956, and was the smallest year-to-year advance since 1949 when output increased only 3 percent over the previous year.

During the year electricity sales reached 561 billion kilowatt-hours, an increase of 31 billion kilowatt-hours over 1956. At the same time, the average annual consumption of electricity per residential customer advanced 195 kilowatt-hours to a total of 3,164 kilowatt-hours.

According to the Edison Electric Institute, the industry currently has in place about 135 million kilowatts of capacity compared with only 50 billion in 1946 and 100 billion in 1954. A record 16.25 million kilowatts of new capacity is scheduled for service this year. This is nearly 4 million kilowatts more capacity than the industry installed in the previous record year of 1955, and is about equal to all the electricity-producing units it added in the ten years between 1937 and 1947.

ELECTRIC POWER PRODUCTION

Source: U. S. Department of Commerce.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Educational Level of Workers

Comparisons between 1957 and 1952 show a continued upward trend in the educational level of the nation's workers, according to survey results released by the Bureau of the Census. An average (median) of twelve years of school — about equal to a high school education — had been completed by persons in the civilian labor force who were 18 to 64 years old in March, 1957. In 1952 the corresponding average was eleven years, whereas in 1940 it was nine years.

During the seventeen-year period since 1940, the proportion of workers in this age group who had completed college rose from 6 percent to 9 percent. Those having at least one year of college advanced from 14 percent to 18 percent. At the same time, the proportion with high school diplomas jumped from one-fifth to three-tenths, whereas the proportion of workers going no further than the elementary grades had declined sharply from about two-fifths to one-fourth.

Gains since World War II in educational level have been sharper among men than among women. Greater opportunities for college training available to men under the GI Bill of Rights as well as the increased proportion of women workers in the middle and older age groups have contributed to this difference.

State and Local Indebtedness — 1957

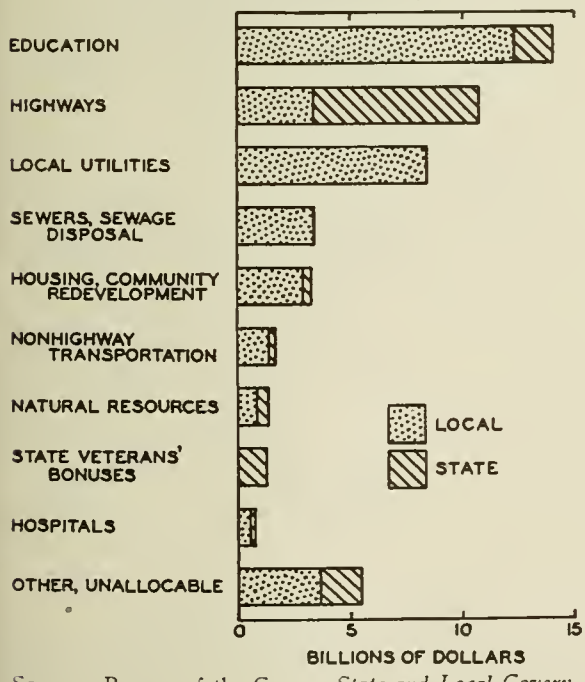
Debt of state and local governments amounted to $52.5 billion on June 30, 1957, an advance of more than 9 percent over the previous year. The 1957 debt was three and one-third times that of 1946.

Of the 1957 total, only 4 percent was short-term debt. Of the remaining $50.4 billion long-term indebtedness, the 48 state governments owed approximately one-fourth and local governments three-fourths. A grouping of the various long-term debts by functions indicates that the financing of educational facilities accounted for $14 billion, nearly 28 percent of the total. Most of this represented local government indebtedness for public schools (see chart).

Street and highway financing was the next largest category — more than one-fifth of the total. State obligations accounted for the major portion of this $11 billion.

The third largest component was utilities — water-supply, electric, gas-supply, and transit systems — owned and operated by local governments. This represented nearly 17 percent of the total state and local debt.

LONG-TERM DEBT OF STATE AND LOCAL GOVERNMENTS, 1957



Source: Bureau of the Census, *State and Local Government Indebtedness.*

Tax Guides

One source of tax information for the small businessman is the 1958 *Tax Guide for Small Business,* a revised edition published by the Internal Revenue Service. This 128-page booklet attempts to provide explanations of and answers to most of the tax problems that confront the small businessman. Many new examples and illustrations are provided in addition to explanations of 46 new rules. Copies of this booklet are available for 35 cents from the Superintendent of Documents, Department T, Government Printing Office, Washington 25, D. C.

Another source of information for the filing of 1957 tax returns is the 1958 *Arco Income Tax Guide* by S. Jay Lasser, C.P.A. It discusses each step of the tax form and indicates possible savings. This booklet can be obtained for $1 from the Arco Publishing Company, 480 Lexington Avenue, New York 17, New York.

Our Declining Farm Population

About 20.4 million persons were living on farms in the nation in April, 1957, according to the most recent estimate prepared by the Bureau of the Census and the Agricultural Marketing Service. This figure represented a drop of 4.7 million persons since 1950 — a continuation of a decline which has been relatively steady since 1933.

Year	Millions of persons	Percent of total population
1957	20.4	12.0
1956	22.3	13.3
1955	22.2	13.5
1954	21.9	13.5
1953	22.7	14.3
1952	24.3	15.5
1951	24.2	15.7
1950	25.1	16.6

Major factors contributing to this decline have been the unfavorable difference between farm and nonfarm incomes in certain regions, lowered manpower requirements in agriculture due to technological improvements, and increased opportunities for employment in nonagricultural industries.

Between 1956 and 1957 there was a sharp drop of 1.9 million persons, the largest recorded for a single year. However, caution must be used in interpreting this figure because of sampling variability. A new factor entered the picture in July, 1956. The Old Age and Survivors Insurance program has given older farm people the opportunity to retire, and once these persons cease to farm their land or retire to nonfarm residences they are no longer counted in the farm population.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in November did not keep pace with the preceding month. With the exception of seasonally adjusted department store sales in Chicago, consumer prices in Chicago, and farm prices, all indicators declined. Bank debits for selected Illinois cities dropped 9 percent.

Comparisons with November, 1956, showed mixed activity; approximately half of the indicators gained as much as 5 percent. Of the indicators registering decreases, department store sales in Chicago and construction contracts awarded dropped 6 percent and 7 percent respectively.

Our Growing Population

Growth and redistribution characterized the population of Illinois between 1950 and 1956. The estimated increase in the State population amounted to 737,000 persons, from 8,750,000 persons in July, 1950, to 9,487,000 persons in July, 1956. An even greater gain was estimated in most of the metropolitan and surrounding counties, according to a preliminary release from the State Department of Health. The thirteen metropolitan counties — Winnebago, Lake, Kane, Cook, Du Page, Will, Rock Island, Peoria, Tazewell, Macon, Sangamon, Madison, and St. Clair — accounted for 85 percent of the increase. These counties had a 9.9 percent aggregate increase as compared with the 8.4 percent State average.

One notable exception to the greater-than-average expansion in the metropolitan counties was Cook, which had a 7.5 percent increase. However, eight of the counties surrounding Cook, including four metropolitan counties, recorded above-average advances, and six of these jumped by one-fifth or more.

As may be seen in the following tabulation, almost one-third of the 102 Illinois counties registered a decline in population from 1950 to 1956. Most of these counties are located in the central and southern portions of the State.

Amount of change	Number of counties
Increase of 8.5% or more	28
Increase of 0.0-8.4%	43
Decrease	31

Another Look at Crops

Although plagued by ill-timed and excessive rains, Illinois farmers fared better in 1957 than expected earlier. Even so, this year's crop valuation, $1,177 million, was 17 percent lower than that of 1956. Illinois ranked third among the 48 states, preceded by California and Texas. Smaller yields, a 1 percent reduction in harvested acreage, and moderately lower prices shared in reducing the total value of production. Corn, the principal Illinois crop, accounted for 54 percent of the 1957 aggregate value, with soybeans in second place adding 23 percent of the total value.

This year's corn crop amounted to 530 million bushels, the third largest Illinois has produced but substantially smaller than the 1956 high. The average yield, 64 bushels per acre, was the second largest on record — 4 bushels below last year.

The soybean crop amounted to 127 million bushels, second only to last year's crop. The yield of 25.5 bushels per acre was also down compared with 1956.

Despite a 9 percent increase in acreage harvested, wheat production was down sharply — 40 percent from last year and 5 percent from the ten-year average. The oat crop was the smallest since 1944. On the other hand, the hay crop was only 1 percent below the 1956 record and 15 percent above average.

Popular Parks

Park attendance at the 73 Illinois parks and memorials was at an all-time high of 11.3 million persons for the first ten months of 1957. Figures released by the State Division of Parks and Memorials indicated that not only was this a gain of 15 percent over the same period last year; it was also a 12 percent advance over the 1956 total.

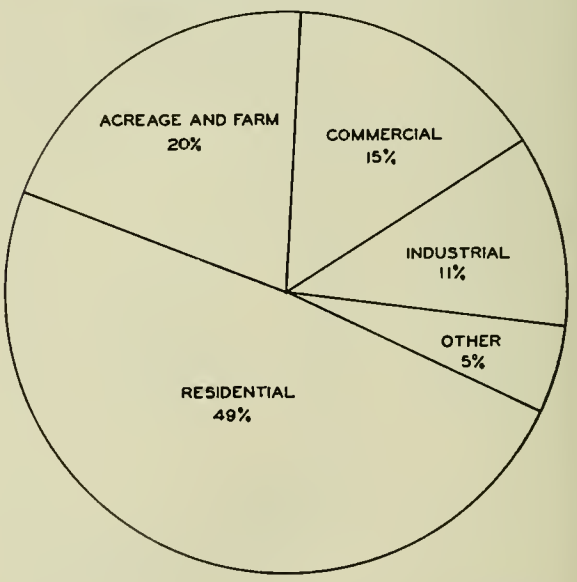
During this ten-month period, Starved Rock State Park in northern Illinois once more led in attendance with 941,000 visitors. In second place was New Salem, in the central part of the State, with 931,000 visitors. Kickapoo and Pere Marquette registered substantial gains; Cave-in-Rock and Jubilee College attendance more than doubled. An increase in the number of visitors was recorded for over three-fourths of the State parks and memorials.

Property Tax Assessments

The 1956 assessed value of Illinois property subject to taxation amounted to $28.6 billion, slightly more than one-tenth of the national total. This aggregate of taxable values, as set by state and local authorities, comprised the base for 1957 property tax collections. Of the Illinois total, only 5 percent was state assessed, and 70 percent of this amount was attributable to railroad property. The remaining 95 percent was locally assessed. Real property accounted for four-fifths of total local assessments and personal property for the remainder.

Major real property categories included residential (nonfarm), acreage and farm, commercial, and industrial. Of these, the value of residential properties in Illinois contributed almost one-half of the total assessed value (see chart). Commercial and industrial property assessments accounted for over one-fourth; acreage and farm property assessments amounted to one-fifth.

VALUE OF LOCALLY ASSESSED REAL PROPERTY IN ILLINOIS, 1956



Source: Bureau of the Census, *Property Tax Assessments in the United States.*

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1957

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$21,131[a]	1,109,731[a]	$587,272[a]		$15,136[a]	$15,256[a]
Percentage change from Oct., 1957	−24.1	+0.4	+4.2	+10	−9.1	+1.9
Percentage change from Nov., 1956	−27.1	+0.1	+1.7	−6	−1.4	+2.6
NORTHERN ILLINOIS						
Chicago	$14,252	836,021	$427,093		$13,804	$13,514
Percentage change from Oct., 1957	−24.5	+0.4	+6.2		−9.0	+2.5
Percentage change from Nov., 1956	−31.7	−1.5	+1.8		−1.4	+3.3
Aurora	$ 779	n.a.	$ 8,491		$ 68	$ 124
Percentage change from Oct., 1957	+24.2		+1.8	+3	−0.4	−5.9
Percentage change from Nov., 1956	+33.2		−4.1	−11	+2.8	−2.9
Elgin	$ 336	n.a.	$ 6,449		$ 42	$ 113
Percentage change from Oct., 1957	+24.9		+1.2	+24	−4.2	+3.7
Percentage change from Nov., 1956	−20.0		+4.2	−3	+0.9	−8.0
Joliet	$ 864	n.a.	$12,114		$ 81	$ 98
Percentage change from Oct., 1957	−48.0		−2.8	+14	−4.5	+4.7
Percentage change from Nov., 1956	−7.2		−5.7	−3	−4.4	+1.7
Kankakee	$ 600	n.a.	$ 5,589		n.a.	$ 50
Percentage change from Oct., 1957	−13.3		+2.1	n.a.		+17.0
Percentage change from Nov., 1956	+169.1		+12.2			+12.9
Rock Island-Moline	$ 719	22,903	$11,007		$ 107[b]	$ 141
Percentage change from Oct., 1957	+27.3	−3.4	+5.6	n.a.	−0.8	−1.9
Percentage change from Nov., 1956	−17.6	+14.5	+17.6		+6.5	+7.0
Rockford	$1,163	43,962[c]	$19,857		$ 180	$ 194
Percentage change from Oct., 1957	−30.8	+4.3	+0.6	+19	−5.2	+0.1
Percentage change from Nov., 1956	+1.0	+4.9	+5.5	−7	+0.2	−6.0
CENTRAL ILLINOIS						
Bloomington	$ 123	8,069	$ 5,789		$ 67	$ 88
Percentage change from Oct., 1957	+12.8	+4.1	−0.4	n.a.	−6.8	+0.8
Percentage change from Nov., 1956	−11.5	+4.9	+0.2		+14.5	−0.5
Champaign-Urbana	$ 190	11,934	$ 8,864		$ 69	$ 92
Percentage change from Oct., 1957	−40.1	+11.3	+2.7	n.a.	−19.2	−7.9
Percentage change from Nov., 1956	−47.4	+13.0	+8.4		+4.2	−8.4
Danville	$ 119	12,482	$ 6,734		$ 49	$ 57
Percentage change from Oct., 1957	+10.2	+6.2	−1.4	+2	−8.8	−13.6
Percentage change from Nov., 1956	−28.7	+9.4	−2.3	−18	−9.9	−4.9
Decatur	$ 648	35,540	$12,593		$ 122	$ 96
Percentage change from Oct., 1957	−18.5	+0.1	−4.1	+2[c]	−16.1	−10.2
Percentage change from Nov., 1956	+2.5	+9.4	+3.5	−10[c]	−2.2	−4.3
Galesburg	$ 105	8,769	$ 4,531		n.a.	$ 36
Percentage change from Oct., 1957	−67.9	+7.0	−10.0	n.a.		−0.2
Percentage change from Nov., 1956	−29.5	+13.5	+1.8			+7.0
Peoria	$ 415	51,452[c]	$18,411		$ 213	$ 258
Percentage change from Oct., 1957	+25.4	+1.6	−2.9	+10[c]	−15.7	+8.4
Percentage change from Nov., 1956	−45.0	−2.2	−2.2	−16[c]	−5.4	−1.9
Quincy	$ 448	11,045	$ 5,053		$ 43	$ 66
Percentage change from Oct., 1957	+87.4	−7.8	−5.0	+7	−13.4	+9.4
Percentage change from Nov., 1956	−12.0	+18.3	−5.4	−6	+3.2	+1.8
Springfield	$ 190	34,800[c]	$15,134		$ 115	$ 205
Percentage change from Oct., 1957	−68.3	+1.4	+3.1	+4[c]	−8.9	−10.4
Percentage change from Nov., 1956	−34.0	+3.8	+1.7	−5[c]	−3.9	−4.9
SOUTHERN ILLINOIS						
East St. Louis	$ 67	11,724	$ 9,531		$ 140	$ 54
Percentage change from Oct., 1957	−66.3	−7.2	−1.2	n.a.	−15.4	−31.7
Percentage change from Nov., 1956	−35.6	+6.6	−1.8		−7.6	+5.8
Alton	$ 37	12,540	$ 5,014		$ 36	$ 31
Percentage change from Oct., 1957	−88.4	−12.8	−4.4	n.a.	−7.0	−4.2
Percentage change from Nov., 1956	−43.1	−8.0	−5.7		−7.5	+5.4
Belleville	$ 76	9,292	$ 5,020		n.a.	$ 39
Percentage change from Oct., 1957	−36.1	+13.9	−3.8	n.a.		−0.1
Percentage change from Nov., 1956	−90.3	+29.2	−0.9			−17.7

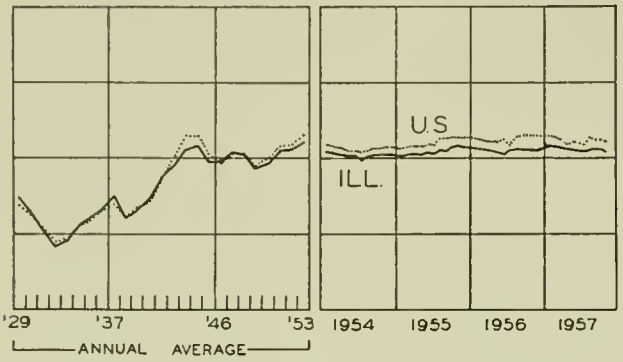
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for October, 1957. Comparisons relate to September, 1957, and October, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending November 15, 1957, and November 16, 1956.

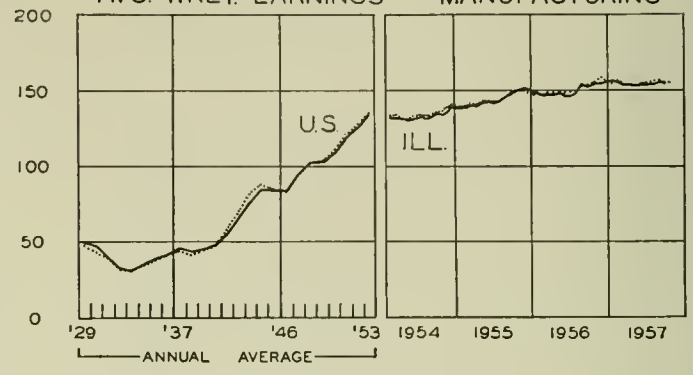
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

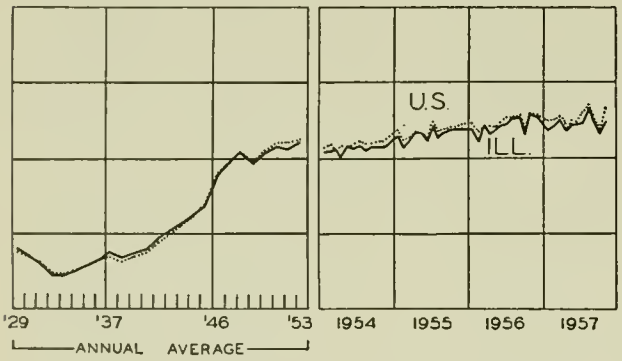
EMPLOYMENT–MANUFACTURING



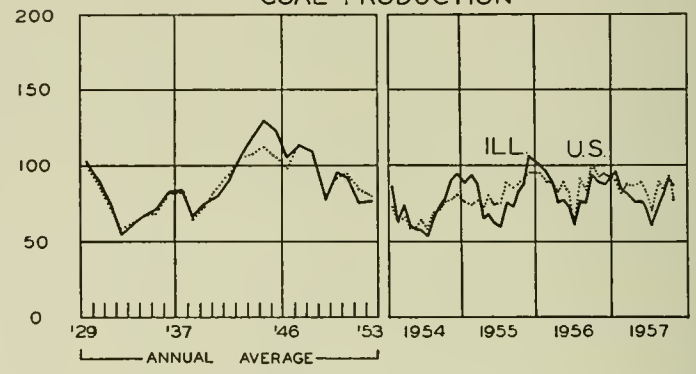
AVG. WKLY. EARNINGS — MANUFACTURING



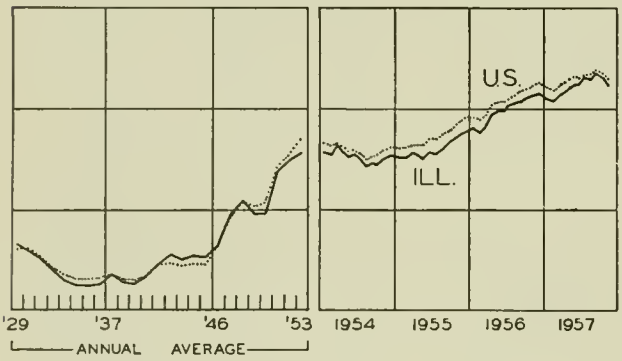
DEPARTMENT STORE SALES



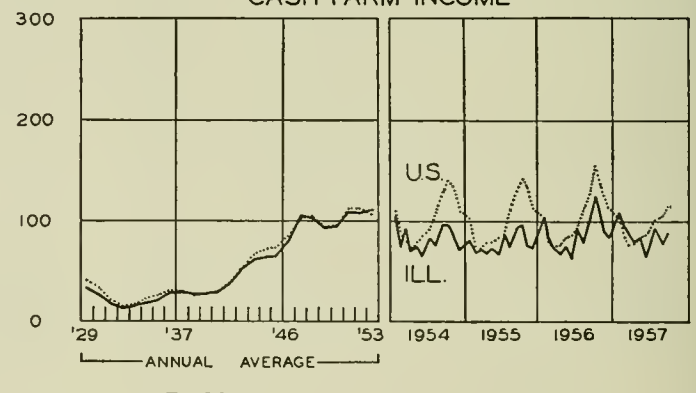
COAL PRODUCTION



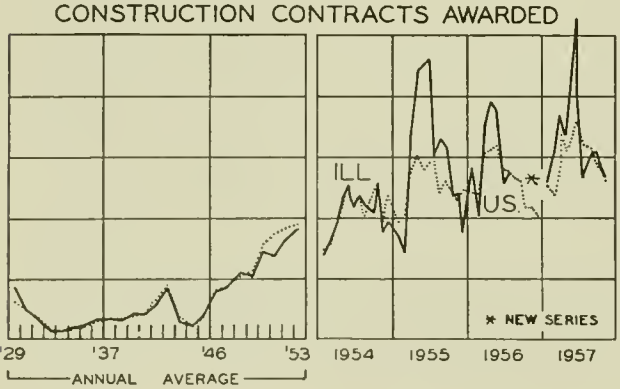
BUSINESS LOANS



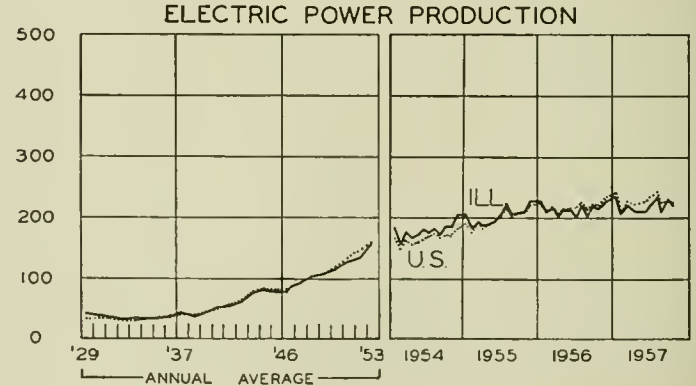
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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VOLUME XV — FEBRUARY, 1958 — NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

The stock market recovered moderately through January. Favorable factors were the reduction in margin requirements from 70 percent to 50 percent, money-easing moves by the Federal Reserve, and expressions of confidence emanating from Washington and elsewhere that an upturn in business activity will come by midyear. Higher defense expenditures, up more than 20 percent from last January and well above the levels of recent months, were considered a major source of strength by some. An additional source of encouragement was found in department store sales, which were almost as high as a year ago in dollar terms although down considerably from December.

Other principal short-term economic measures provided little basis for optimism. Miscellaneous carloadings averaged about 17 percent below January a year ago and heavy construction awards were off nearly 30 percent. Insured unemployment climbed beyond 3 million, more than 60 percent above the year-earlier figures.

Production Declines Spread

Automobile production in January dropped to the lowest level for the month since 1954. The industry total of 489,000 cars was nearly 9 percent below December and 24 percent below January, 1957. At this rate, stocks increased again, as sales dropped still faster.

Steel production averaged about 1.5 million tons a week compared with 2.5 million tons in the like period a year ago and 2.0 million tons in January, 1955. In relation to capacity, operations were down close to 55 percent.

Most other weekly production series ran well below the corresponding period last year. Only paperboard production and electric power output held close to the like 1957 weekly totals and the former was weakening sharply at the end of the month.

Construction Outlays Up

A new January high brought construction expenditures to $3.3 billion. Although this total reflected a decline of 10 percent from December, it represented a seasonally adjusted annual rate of $48.5 billion, compared with the record $47.3 billion for the full year 1957.

Private construction accounted for $2.4 billion, up slightly from January a year ago. Record January spending for public utilities, office buildings, churches, and hospitals were the main sources of strength in the private sector. However, new private residential construction was down only 3 percent from January, 1957 — the smallest year-to-year decline in two years. On the other hand, seasonally adjusted industrial construction was at the lowest point since March, 1956, and store building at the lowest in three years.

Spending for public construction was 6 percent above January, 1957, and reached a record seasonally adjusted annual rate of $15.0 billion. New January highs in outlays for highways, public schools, and sewer projects contributed to the gain, but expenditures for public housing, which were double the year-earlier figure, saw the biggest advance.

Manufacturers' Sales, Orders Down

Manufacturers' sales, new orders, and inventories declined further in December on a seasonally adjusted basis. In all three, reductions occurred primarily in the durable goods industries, with nondurable goods industries experiencing little or no change.

Sales by manufacturers were down $500 million to $26.7 billion after seasonal adjustment, a somewhat smaller drop than in November. Manufacturers reduced their inventories by $300 million in December to a seasonally adjusted total of $53.6 billion, but the ratio of inventories to sales nevertheless continued to rise.

New orders placed with manufacturers, which had experienced some buoyancy in November as the result of an increase in defense aircraft orders, dropped $900 million to $25.2 billion in December, after allowance for seasonal factors. Declines in other durable goods industries more than offset the continued flow of new orders for aircraft.

Unfilled orders fell about $1.0 billion to $51.0 billion, down over 20 percent from the end of 1956.

Unemployment Grows

The number of unemployed workers in the labor force increased from 3.4 million in mid-December to almost 4.5 million in mid-January and all reports indicated the total is still going up. The biggest layoffs came in automobile, aircraft, steel, textile, and apparel manufacturing and in the construction industry, but other nonmanufacturing industries were also beginning to feel the pinch.

THE PRESIDENT'S BUDGET FOR 1959 · · · By Paul Wells · · · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Deeds, Not Words, Decide

The economy, like Ol' Man River, just keeps rolling along. Individuals, and even substantial groups, may ride the current, or fight it to the point of exhaustion, without significantly changing its course or rate of flow.

This fact is lost upon those who subscribe to the commonly held view that what people say, as distinguished from what they do, will affect the future course of business. This view appears quite untenable in the light of analysis that defines the real forces making for economic change.

A variant of this fallacious view holds that optimistic statements and predictions would be influential if only they were not made ineffective by expressions of opposed views. This, too, must be rejected. The verbal contradiction is as lacking in significance as the original prediction.

In short, we believe it is not possible "to talk ourselves into a depression." And we believe it is not possible to talk ourselves out of one either.

Campaign for Confidence

This thesis is currently being put to an important test. The Administration in Washington is undertaking a campaign of optimistic talk to restore "confidence." The President himself set the pace, by asserting that "there are strong grounds to support my confidence that the expansion of the economy will soon be resumed."

Secretary of Treasury Anderson fell in line by pointing to "a manifestation of more confidence and growing confidence in this country which is exceedingly important." He hid whatever qualms he may feel by a shift to the longer-run: "A healthy and growing economy . . . can provide not only security but an improving standard of living for future generations of our people. This . . . will assure us both a strong and adequate defense and a strong and virile economy for the imponderable future."

Secretary of Commerce Weeks preferred to place primary emphasis on past outstanding achievements, particularly the record highs of 1957. He used an oversimplified business-cycle hypothesis to translate this into optimism for the future: "As 1957 ended, adjustments were continuing in our flexible, free economy. A glance at our economic history in recent years will show that our biggest year-to-year gain in total output took place just after a decline."

Secretary of Labor Mitchell found hope in regarding seasonal developments as the most important aspect of the situation. He predicted that "unemployment will rise during the winter months, and at a faster rate than it generally does." The number of jobless will therefore "go above 4 million in February." But it will fall decidedly in the spring months, "keeping the top 1958 level below the biggest February figure since the war"—4.7 million in 1950.

Budget Director Brundage also predicted an upturn by June 30, and cited other authorities to support his view: "Officials and economists consulted while the budget for 1959 was being prepared presented views ranging all the way from one that recovery had already started to a prediction that it won't start until late fall."

The President coupled the campaign for confidence with an appeal for self-restraint on the part of business and labor. He indicated that recovery might be threatened if they refused to cooperate in holding down prices and wage rates. The implication that all may not be secure is apparently justified for the sake of indicating where responsibility lies. Business and labor were in return promised the use of the government's "powers to help keep our economy stable and to encourage sound economic growth." Assurances of future action were also given by the others quoted.

Talk Not Matched By Action

The history of exhortation does not encourage it as a practice. It has been tried time and again without producing the desired results. In the immediate postwar period, after the elimination of price controls, the failure to restrain price increases was so complete that the effort came to be contemptuously referred to as "jawbone control."

One reason for this, of course, is that business and labor properly reserve the right to exercise their intelligence and good judgment. There are many considerations, real and financial, that go into the determination of business operations. Few businessmen permit reasonable opportunities to slip away. But they cannot undertake to maintain operations when the opportunities are mere figments of the imagination.

It is a misconception of the business process to think that they can continue to invest and spend through all circumstances. When orders from customers fall off, output has to be curtailed. When inventories are excessive, output has to be curtailed, not just to the level of orders, but enough lower to work off the surplus. When business is so slack as to leave a large measure of unutilized capacity, new investment has to be reduced if ultimate disaster is to be avoided. In dealing with problems of this kind, businessmen have learned about the kind of indicators to watch. Neither their problems nor their fears when business takes an unfavorable turn can be dissipated by pretty speeches.

It is necessary to modify the realities of the situation in some significant respect if the course of business is to be changed. The Administration's action does not match its words, and therefore does not represent such a modification. The special article in this issue points to deficiencies of the President's budget in this regard. The budget appears to be little more than a compromise intended to satisfy everybody: It has some increases in spending to satisfy the desire for stronger defenses and for economic expansion; and it has a theoretical surplus to satisfy those who fear inflation as the consequence of a rising budget.

(Continued on page 8)

CORSETS AND FOUNDATIONWEAR

Although foundation garments have been used for nearly 4,000 years, the corsetry industry did not flourish among the general population until the twentieth century. The corset, though always a symbol of fashion in the civilized world, has been denounced often in history because of its excessive compression of the body by means of metal, bone, or wood supports; and criticism of corsetry is not dead today.

With the exception of barbaric tribal rites, the custom of wearing corsetry has been generally associated with royalty and wealth throughout the ages. Moreover, in various periods of history, corsets have been fashionable for men as well as women. The use of the term "corset" first became prominent in 1265, when these garments were designed for Richard, King of the Normans.

As in Europe, the use of corsets in early America was common only among the wealthy. Production for the mass market did not make any headway until about 100 years ago, when the invention of the sewing machine spurred pioneers in the industry to turn out small lots of corsets. But the corset industry did not experience any significant rate of growth until the 1900's when style trends were radically altered.

The past half-century has brought many changes in the industry. Discoveries in new materials, such as elastic fabrics and nylon, and ingenuity in design, construction, and marketing techniques played the primary role in this development.

The Industry Today

The foundation garment industry produced only corsets until about forty years ago. Today it includes corset accessories, bras, girdles, and maternity wear, among other items. In addition, the industry makes miscellaneous body-supporting garments, including surgical and orthopedic supporters, such as fracture appliances, elastic hosiery, abdominal supports, and braces.

In 1957, the value of foundation garment manufacturers' output exceeded $400 million (excluding surgical and orthopedic items). Although the industry grew by 38 percent in value added by manufacture between 1947 and 1954, employment rose only from 37,000 to 39,000, and the number of establishments declined from 535 to 491. These figures include the activities of jobbers and contractors who, together with the "regular" manufacturers, represent the three types of establishments characteristically found in the apparel industry. The jobbers and contractors together produced about one-third of the foundation garments made in 1954.

Like other areas of apparel manufacture, the foundationwear industry is characterized by a high degree of specialization, only a few items usually being made in each plant. Output of foundation garments in 1954 amounted to 96 percent of the industry's total primary and secondary products.

Because of the problem in distinguishing surgical and orthopedic foundationwear from other medical supplies and appliances, the exact value of product in this area is difficult to ascertain. However, it would appear from the *Census of Manufactures* that the value of surgical and orthopedic foundationwear approximates $100 million annually, or about one-fourth that of foundation apparel.

Trends in Foundationwear

The growth in popularity of foundation garments has been relatively steady during the twentieth century, with the exception of the 1930's. Retail sales reached an estimated $660 million in 1957, a record level for the industry. Although price increases account for some of the 55 percent rise in sales since 1947, there was a considerable increase in the number of items sold. This growth is attributed to population increases, new developments in flexible, lightweight materials, and the continuing "waistline" consciousness of the American woman.

The Corset and Brassiere Association of America has estimated that more than 85 percent of the American women 15 years old or older collectively purchase 50 million girdles and 175 million bras annually.

Among the more striking postwar trends is the 50 percent decline in corset production (including surgical and maternity types) since 1947 and the large increases in production of smaller foundation goods, such as girdles (35 percent), elastic roll-ons (38 percent), and bras (40 percent). Chiefly responsible for this trend was the greater use of elastics, which made the smaller pieces more comfortable and lighter than corsets though of equal strength.

Manufacture in Illinois

Illinois ranks fourth in corsetry production. The State has 29 manufacturing establishments, most of which are found in Chicago. These plants each average more than 100 employees, 80 percent of whom are production workers. In 1954, Illinois had nearly 3,200 foundation garment workers, who were paid $13.5 million in wages.

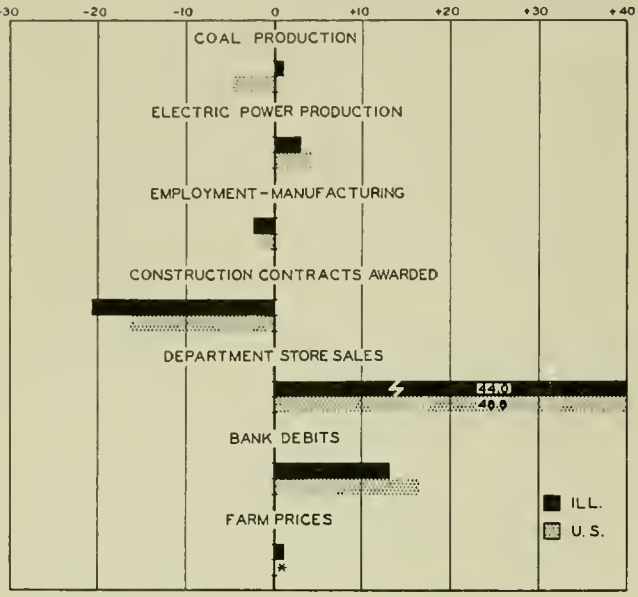
Chicago, the Midwestern capital for all types of wearing apparel, produced approximately 98 percent of the State's foundationwear in 1954. A. Stein and Company, the world's largest producer of elastic goods, is located in Chicago. Among the firm's products are bras, girdles, men's belts and suspenders, and many other types of elastic goods. Other major producers of elastic products in Illinois are Kabo, Vassar, Blair, Formfit, Gossard, Venus, and Powell.

As a foundation garment producer, Illinois has been losing ground. Although the State maintained its number of establishments (29) between 1947 and 1954, it dropped from second to fourth both in value added by manufacture and in total number of employees. Likewise, a decline was apparent in the State's position in the apparel industry as a whole. New York, New Jersey, and Pennsylvania were among the states that increased value added by manufacture while losing factories during this seven-year period. There has been a definite shift toward Southern states (especially Texas, Florida, and Georgia) by foundationwear manufacturers because of the attractiveness of cheaper labor. Although Illinois may continue to suffer because of this movement, it will remain an industry stronghold because of its many major manufacturers.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1957, to December, 1957



* No change.

ILLINOIS BUSINESS INDEXES

Item	December 1957 (1947-49 =100)	Percentage change from Nov. 1957	Percentage change from Dec. 1956
Electric power[1]	228.0	+ 3.1	+ 0.9
Coal production[2]	89.5	+ 1.2	+ 1.7
Employment—manufacturing[3]	101.3	− 2.4	− 6.9
Weekly earnings—manufacturing[3]	155.5[a]	+ 0.3	+ 0.3
Dept. store sales in Chicago[4]	120.0[b]	+ 4.3	− 0.8
Consumer prices in Chicago[5]	125.6	0.0	+ 3.8
Construction contracts awarded[6]	212.8	−20.8	−24.0
Bank debits[7]	195.9	+13.1	+10.1
Farm prices[8]	83.0	+ 1.2	+ 5.1
Life insurance sales (ordinary)[9]	314.4	+11.4	+ 6.0
Petroleum production[10]	136.7	+ 8.0	+ 4.1

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] November data; comparisons relate to October, 1957, and November, 1956. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	December 1957	Percentage change from Nov. 1957	Percentage change from Dec. 1956
	Annual rate in billion $		
Personal income[1]	342.8[a]	− 0.8	+ 2.4
Manufacturing[1]			
Sales	320.4[a]	− 1.8	− 7.3
Inventories	53.6[a, b]	− 0.6	+ 2.5
New construction activity[1]			
Private residential	16.1	− 9.4	− 1.2
Private nonresidential	16.3	− 6.7	+ 5.3
Total public	11.5	−17.8	+ 8.1
Foreign trade[1]			
Merchandise exports	20.2[c]	+ 0.4	+ 8.9
Merchandise imports	12.5[c]	− 8.9	+ 5.7
Excess of exports	7.7[c]	+20.5	+14.5
Consumer credit outstanding[2]			
Total credit	44.8[b]	+ 2.9	+ 6.4
Installment credit	34.1[b]	+ 1.6	+ 7.2
Business loans[2]	32.2[b]	+ 2.2	+ 3.5
Cash farm income[3]	38.5[c]	− 8.7	− 3.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	136[a]	− 2.2	− 7.5
Durable manufactures	148[a]	− 3.3	−11.4
Nondurable manufactures	127[a]	− 0.8	− 2.3
Minerals	121[a]	− 1.6	− 6.9
Manufacturing employment[4]			
Production workers	100	− 1.5	− 6.5
Factory worker earnings[4]			
Average hours worked	98	0.0	− 4.2
Average hourly earnings	159	0.0	+ 2.9
Average weekly earnings	156	0.0	− 1.4
Construction contracts awarded[5]	219	−16.4	− 3.6
Department store sales[2]	138[a]	+ 3.8	+ 0.7
Consumer price index[4]	122	0.0	+ 3.0
Wholesale prices[4]			
All commodities	118	+ 0.2	+ 1.8
Farm products	93	+ 0.8	+ 4.2
Foods	107	+ 0.8	+ 4.2
Other	126	+ 0.1	+ 1.0
Farm prices[3]			
Received by farmers	89	0.0	+ 2.3
Paid by farmers	120	+ 0.8	+ 3.4
Parity ratio	81[d]	0.0	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for November, 1957; comparisons relate to October, 1957, and November, 1956. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1958 Jan. 25	1958 Jan. 18	1958 Jan. 11	1958 Jan. 4	1957 Dec. 28	1957 Jan. 26
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,381	1,407	1,465	1,405	1,138	1,695
Electric power by utilities	mil. of kw-hr	12,399	12,400	12,506	11,692	11,218	12,410
Motor vehicles (Wards)	number in thous.	128	128	138	89	92	168
Petroleum (daily avg.)	thous. bbl.	6,923	6,925	6,850	6,863	6,940	7,396
Steel	1947-49 = 100	87	89	88	87	79	143
Freight carloadings	thous. of cars	551	572	569	472	410	666
Department store sales	1947-49 = 100	93	102	108	95	147	96
Commodity prices, wholesale:							
All commodities	1947-49 = 100	118.8	118.7	118.7	118.4	118.4	116.9[a]
Other than farm products and foods	1947-49 = 100	126.0	126.0	126.0	125.8	125.8	125.2[a]
22 commodities	1947-49 = 100	85.4	84.6	84.8	84.3	84.7	91.3
Finance:							
Business loans	mil. of dol.	30,857	31,361	31,651	32,237	32,288	30,349
Failures, industrial and commercial	number	333	260	324	203	166	258

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for January, 1957.

RECENT ECONOMIC CHANGES

Steel Production

The American Iron and Steel Institute reported that steelmaking furnaces operated at an average of 84.5 percent of capacity during 1957, compared with 89.8 percent in the previous year.

A sharp drop of about a million net tons from the preceding month brought December operations down to 65.4 percent of capacity. For the fourth quarter, production declined to about 25 million tons from the 27 million of the third quarter and the 33 million of the first quarter.

Total output for the year amounted to 112.7 million net tons. This represented a reduction of about 2.2 percent from the previous year's total of 115.2 million tons and was approximately 4.3 million tons below the record 1955 level. At the same time, the industry's capacity rose from 133.5 million tons per annum at the beginning of 1957 to a record high of 140.7 million tons per annum for the new year. As a result the gap between capacity production and actual production continued to expand (see chart).

The institute also announced that the forecast of current operating rate (i.e., percentage of capacity figures) will no longer be included in its weekly report of production. Instead the report will show the estimates of production in tons for the current week along with an index of production based on the average annual production of steel for the years 1947-49. For 1957 the index of production was 134.6 percent of the 1947-49 average, compared with 137.2 percent in 1956.

Unemployment Up

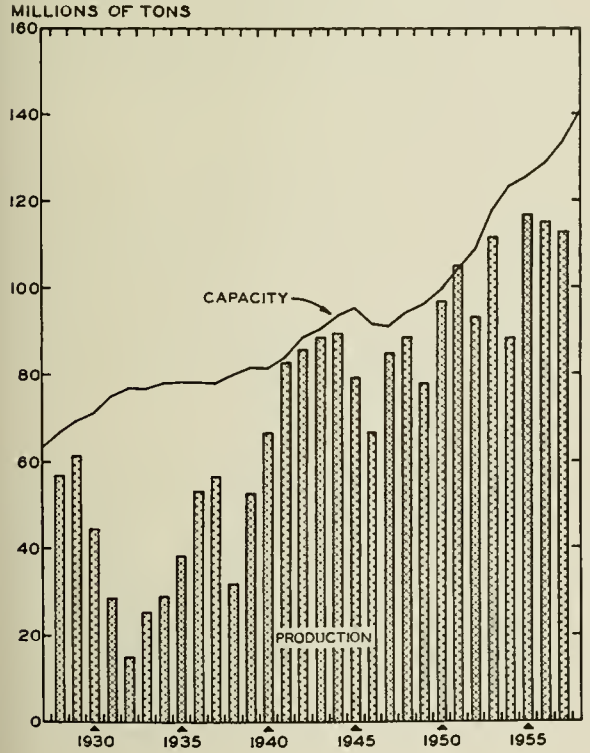
Unemployment rose sharply in the last four months as 1,986,000 persons were added to the jobless lists from October to January. The increase brought unemployment to 4.5 million, or 5.8 percent of the labor force. The January rise of about 1.1 million was twice the normal seasonal advance and the largest monthly increase since World War II. In addition the average work week fell to 38.7 hours last month, an hour and a half less than January, 1957.

A year ago the Labor Department classified only 19 major labor market areas as having a substantial labor surplus. By November, 1957, the number had risen to 24. Since then, 21 more have been added to bring the total to 45 out of the 149 areas included in the department's survey.

Census data, in thousands of workers, for the last three months are as follows:

	Jan. 1958	*Dec. 1957*	*Nov. 1957*
Civilian labor force	66,732	67,770	68,061
Employment	62,238	64,396	64,873
Agricultural	4,998	5,385	5,817
Nonagricultural	57,240	59,012	59,057
Unemployment	4,494	3,374	3,188
Seasonally adjusted rate	5.8	5.2	5.1

STEEL PRODUCTION AND CAPACITY



Source: American Iron and Steel Institute.

Personal Income

Personal income fell $2.5 billion from the November level and was at a seasonally adjusted annual rate of $343 billion in December. This was the sharpest drop since the downturn began in September and brought the total decline from the peak month of August to $4 billion.

The bulk of the decrease in the annual rate for December was in dividend payments, reflecting a less-than-usual volume of year-end extra and special payments. Wage and salary payments during the month were down $750 million with most of this reduction, as in other months, occurring in the durable goods manufacturing industries. At $239 billion, the annual rate of payments was about $3 billion under the August high.

Retail Sales

The Department of Commerce advance estimate placed retail store sales during December at $19.7 billion before adjustment for seasonal factors and trading day differences. The December figure brought total sales for the full year to a record high of more than $199.8 billion, 5 percent above sales for 1956.

After adjustment for seasonal factors and trading day differences, December, 1957, sales were about $16.8 billion, 1 percent above the previous month and 2 percent above December, 1956.

The preliminary figures released by the department also revealed a 1 percent drop in sales by durable goods stores during the last month of 1957. However, this decline, attributable to lower sales by automotive dealers, was more than offset by advances in sales of nondurable goods stores, particularly general merchandise outlets.

Construction Outlays Rise Slowly

According to preliminary estimates by the Commerce and Labor Departments, outlays for new construction in 1957 showed the first slowdown in twelve years. Although the year's total of new construction put in place reached a record high of about $47.3 billion, the rate of gain over 1956 amounted to only 3 percent, the smallest since the end of World War II.

Expenditures were at peak levels in 1957 for a large majority of the major types of private and public con-

(Continued on page 8)

THE PRESIDENT'S BUDGET FOR 1959

PAUL WELLS, Assistant Professor of Economics

On January 13 President Eisenhower delivered his budget for the fiscal year 1959 to Congress. Though this budget asks that expenditures of $73.9 billion be made and hopes that receipts of $74.4 billion will be collected, there are good reasons to doubt if either of these magnitudes will even be closely approximated by the end of fiscal 1959.

An unusual amount of uncertainty seems to exist in Washington both with respect to the level of expenditures Congress will ultimately authorize for fiscal 1959, and the level of tax receipts the economy can be expected to yield in this same period. In this uncommonly disordered state of affairs the President's budget figures lack the authority they would have in calmer times, and for this reason the current budget is a less reliable planning and forecasting guide than previous budgets have been.

Expenditures Not Greatly Increased

Table 1 breaks down the expenditures of the past four years and those proposed in the President's current budget into their major program parts. Although government expenditures are large in absolute size and have been increasing year by year, they have been taking up a steadily decreasing proportion of gross national product. The reason for this is that gross national product has been increasing at a faster rate than have government expenditures. If this trend is reversed in 1959, it will likely result from a decline in gross national product.

The figures of Table 1 also point out that, with the economy producing a gross national product of approximately $435 billion in 1957, government expenditures are in no danger of "breaking" the economy. It is often asserted that large or increasing government expenditures will either subject the economy to "dangerous" strains or cause it to go "broke" at some future time. This is not true. Because of the unemployed resources available to the economy, additional goods could be delivered to the government without causing "shortages" or "strains" to appear.

With respect to the general outlines of the budget, the expenditure figures show both increases and decreases. The President has asked that: spending on major national security measures be increased by $1 billion to $46 billion; spending on international affairs be reduced by $200 million to $1.3 billion; spending for civil benefits (commerce and housing through veterans services as listed in Table 1) be reduced by $600 million to $16.4 billion; almost $8 billion be allocated to meet interest charges on the debt; $1.4 billion be allocated to finance the general operations of the government; and that $1 billion be reserved for contingencies, of which half be earmarked for defense. In all, the President asks that $1 billion more be spent in fiscal 1959 than is expected to be spent in fiscal 1958.

TABLE 1. BUDGET EXPENDITURES BY FUNCTION

(Fiscal years; billions of dollars)

Function	1955	1956	1957	1958 (est.)	1959 (asked for)
Major national security	42.1	41.8	44.4	44.9	45.8
International affairs and finance	.7	.7	.8	1.5	1.3
Commerce and housing	1.5	2.0	1.4	2.1	1.6
Agriculture and agricultural resources	4.4	4.9	4.6	4.9	4.6
Natural resources	1.1	1.1	1.3	1.5	1.5
Labor and welfare	2.5	2.8	3.0	3.4	3.6
Veterans services, etc.	4.5	4.8	4.8	5.0	5.0
Interest	6.4	6.8	7.3	7.9	7.9
General government	1.2	1.6	1.8	1.4	1.4
Allowances for contingencies	...	...	...	.2	1.1
Total	64.4	66.5	69.4	72.9	73.9

Source: *The Budget for Fiscal Year 1959*, pp. 954-55.

In view of the recent reappraisals of the Soviet military threat and of the state of this country's defenses, perhaps the most striking feature of the President's budget is the relatively modest increase in major national security expenditures asked for. The President apparently did not choose to go along with those who have been recommending really large increases in defense spending. It is not possible, of course, to conclude on the basis of the information provided by the budget whether the President has acted wisely or not. About all one can determine by studying the budget is that the government is undertaking a worthwhile activity (e.g., defense) and that it is spending a good many dollars on this activity. The major national security programs make up 62 percent of the total, and with international items and interest on the debt, they make up 75 percent of the total.

In general it is not possible to determine whether too much or too little money is being spent on any given public project. The reason for this is that there exists no developed criteria for appraising the social desirability of the various projects undertaken by governments. For this reason such projects are usually judged on other than purely economic grounds, which an economist has no special competence to evaluate. It is to be hoped, though, that the additional information available to Congress on the Soviet threat and our defenses will enable them to reach a sound decision on this matter. Unfortunately Congress does not always act wisely, even when in full possession of the facts.

Anomalies in Civilian Programs

Civil benefits, which account for a surprisingly small part of the budget — only $16.4 billion or 22 percent — are slated by the President to take a $600 million reduction. However, this reduction depends upon a $700 million increase in postal revenues which the President hopes to secure through higher postal rates. If Congress does not vote these higher rates, then this much more will have to be allocated to the Post Office Department and the President's carefully got up and painfully thin surplus will have no chance of being realized.

Though the aggregate figures for civil benefits contain no significant or startling changes, they do contain within them some significantly large and even startling expenditures. For example, in accordance with the announced will of Congress the present budget provides, much as earlier budgets have, over $3 billion for the stabilization of farm prices and farm income. This expenditure constitutes a clear waste of economic resources and can be condemned on economic grounds alone. The proof of this statement lies in the huge stocks of surplus agricultural commodities the government has been forced to purchase and in the higher prices consumers must pay

TABLE 2. SUMMARY OF BUDGET RECEIPTS
(Fiscal years; billions of dollars)

Source	1955	1956	1957	1958 (est.)	1959 (est.)
Individual income taxes	28.7	32.2	35.6	37.2	38.5
Corporation income taxes	17.9	20.9	21.2	20.4	20.4
Excise taxes	9.1	9.9	9.1	8.9	9.3
Employment taxes	.6	.3	.3	.3	.3
Estate and gift taxes	.9	1.2	1.4	1.5	1.6
Customs	.6	.7	.7	.8	.8
Miscellaneous receipts	2.6	3.0	2.8	3.3	3.5
Total	60.4	68.2	71.0	72.4	74.4

Source: *The Budget for Fiscal Year 1959*, p. 954.

for their foodstuffs. Thus, the farm support program imposes a double cost of higher taxes and higher prices on the consumer.

It is somewhat pathetic to observe the President, throughout his budget, emphasizing the need to cut back nonessential programs, to hold "expenditures in future years to prudent levels," to give priority to "national security over lesser needs," and so on. To achieve these worthy ends, postal rate increases that would raise $700 million are recommended, interest rates on certain government loans are to be increased to yield a few million more dollars, various welfare programs are to be cut back to save a few million dollars. But in the midst of these painful marginal parings which the President recommends, this enormous waste stands untouched. If the farm support program were to be abolished, sufficient funds to purchase 602 B-52's, or 2,408 Atlas ICBM's, or 4,817 Thor IRBM's, or 240,850 Falcon missiles would be released. Viewed in these terms this program seems almost suicidal. One can only hope that Congress will soon become educated as the President and the Secretary of Agriculture have been, to the undesirable features of this program.

Receipt Increases Are Hypothetical

Table 2 displays the President's revenue anticipations by major tax categories. Individual income taxes are expected to increase by a little over a billion dollars in fiscal 1959, while comparatively small changes are expected in the other revenue sources. This expectation for higher individual income taxes is based on the assumption that personal income will increase to $352 billion during the current calendar year. In view of the fact that personal income has been *decreasing* lately rather than increasing, it must be that the President envisages a rather sharp economic upturn in the near future; for personal income has fallen from an all-time high of $347 billion in August to $343 billion in December, 1957, and apparently is still falling. The longer personal income continues to decrease, as the current business recession progresses, the more difficult it will be for the economy to hit the $352 billion target in calendar 1958, and the more improbable do the budget revenue expectations become.

The President cited five factors in his budget message in support of his belief "that the expansion of our economy will soon be resumed, bringing higher levels of receipts with present tax rates." They are: "The acceleration of defense efforts already under way, the increasing pace of activity in a number of programs involving State and local as well as Federal expenditures, the rapid pace of technological advance . . . , the expanding needs and desires of our growing population, and Government policies designed to facilitate the resumption of growth."

To this writer the final three arguments seem wholly nebulous and the second somewhat dubious, since State and local government units often pursue the awkward policy of reducing expenditures as their revenues fall rather than increasing them. This then leaves most of the burden on the first argument. Whether accelerated defense efforts will turn the trick is far less than certain, for these accelerated efforts are made up mainly of additional *orders* for the future delivery of military hardware, not additional *spending* for present delivery of hardware. Since it is spending that causes business activity to pick up, and very little increase is projected, it appears most unlikely that President Eisenhower's revenue expectations can be realized. It seems more reasonable, therefore, to expect a deficit of several billion dollars rather than a surplus of half a billion dollars.

Trust Funds

In addition to the regularly budgeted expenditures and receipts the government collects substantial trust fund receipts from the public and makes payments back to the public out of these funds. Table 3 shows the President's estimates of these payments and receipts for fiscal 1959 as well as the actual totals for the previous four years. These payments increased by rather large amounts in fiscal 1957 and 1958 due mainly to the extension of social security coverage and the road-building program. The expected increase in 1959 of $1 billion is not nearly so large as those of previous years, and although it will contribute to closing the gap between payments and receipts, it cannot offer much of a stimulant to the economy.

TABLE 3. TRUST FUND PAYMENTS TO AND FROM THE PUBLIC
(Fiscal years; billions of dollars)

	1955	1956	1957	1958 (est.)	1959 (est.)
Total receipts	9.5	11.7	14.4	16.4	16.6
Total expenditures	8.5	9.4	13.0	15.2	16.4
Surplus	1.0	2.3	1.4	1.2	.2

Source: *The Federal Budget in Brief, Fiscal Year 1959*, p. 41.

Since these funds affect economic activity just as other governmental payments and receipts do, a better measure of the total impact of the Federal government can be gained by consolidating budget transactions with trust fund transactions. Table 4 shows the result. A surplus of half a billion dollars is expected. This surplus, though, is fully as tenuous as the budget surplus. Expenditures in excess of those recommended by the President or any failure of the economy to yield the high volume of tax receipts the President hopes for would

TABLE 4. FEDERAL GOVERNMENT RECEIPTS FROM AND PAYMENTS TO THE PUBLIC
(Fiscal years; billions of dollars)

	1957	1958 (est.)	1959 (est.)
Receipts from public	82.1	85.1	87.3
Payments to the public	80.0	84.9	86.7
Surplus	2.1	.2	.6

Source: *The Federal Budget in Brief, Fiscal Year 1959*, p. 50.

affect this surplus as well as the budget surplus. These figures also show that total payments to the public will increase by $2 billion if the President's recommendations are effected. This increase bulks to less than one-half of 1 percent of gross national product in 1957, and, unfortunately, we cannot expect an "increasing pace of . . . Federal expenditures" of this small magnitude to rouse the economy out of its current recession.

On balance it appears that, in spite of the fact that the President's figures call for a surplus, fiscal 1959 will most likely render a deficit. Since the President no longer believes deficits indicate a lack of "fiscal soundness" on the part of the government, this expectation will now probably alarm only one faction of each political party and not the broader body of the Republican party nor those Democrats who have escaped from "habitual modes of thought" and are no longer "the slaves of some defunct economist."

Deeds, Not Words, Decide

(Continued from page 2)

No Gain from Synthetic Courage

Does this mean that the Administration's campaign for confidence altogether disregards economic realities? The answer must be, not entirely. But where real factors appear, the discussion does not display a close tie to the facts.

Take two examples: Secretary of Commerce Weeks, with reference to the inventory picture, stated: "The latest data indicate, on balance, a closer adjustment of stocks to current sales." However, the figures from his own department show a steady rise in the ratio of manufacturers' inventories to sales in 1957, continuing right through December.

Second, Chairman of the Council of Economic Advisers Saulnier said, "It may well be that we have seen the most" of the decline in business capital expenditures. The next day the Iron and Steel Institute reported that the industry's capital expenditures were being slashed to $1 billion from $1.75 billion in 1957. As an aid in interpreting this, it may be pointed out that $1 billion is just halfway between $1.75 billion and $.25 billion. Only a rebound in demand can halt the decline at $1 billion. But demand cannot rebound as long as investment is dropping sharply.

Does this mean that the campaign for confidence will be wholly without effect? Again, not entirely. Individuals may be influenced and for them it may make an important difference. It has always been the difficulty with exhortation that it discriminates against those who are most cooperative in sacrificing their own interests. To the extent that some respond in this way, it creates opportunities for others to unload and let the cooperators hold the bag.

The recent reduction in margin requirements on stock purchases is a case in point. Anyone who buys up to the hilt at present prices is in danger of losing all he puts into the venture. The possibility of a 50 percent decline before the bear market is over is not at all in the realm of negligible probabilities.

Effects of this kind, however, are in the category of one's loss being another's gain. They cancel out and therefore make little difference in the over-all aggregates. The flow of the stream cannot be much changed by those who gain the synthetic courage of the official view.

VLB

Recent Economic Changes

(Continued from page 5)

struction. However, the year-to-year gains for some important components narrowed considerably, and the physical volume of total new construction in 1957 (expenditures adjusted for price changes) was about the same as in 1956.

In their report, the departments noted that the record $33.3 billion spent for private construction was only slightly above the 1956 total, whereas public construction outlays rose 9 percent to a new high of $13.9 billion.

New private housing activity was down an additional 10 percent during 1957 but showed signs of checking a two-year slide as an autumn rise in apartment building pushed the seasonally adjusted annual rate upward through the end of the year.

Farm-Retail Spreads

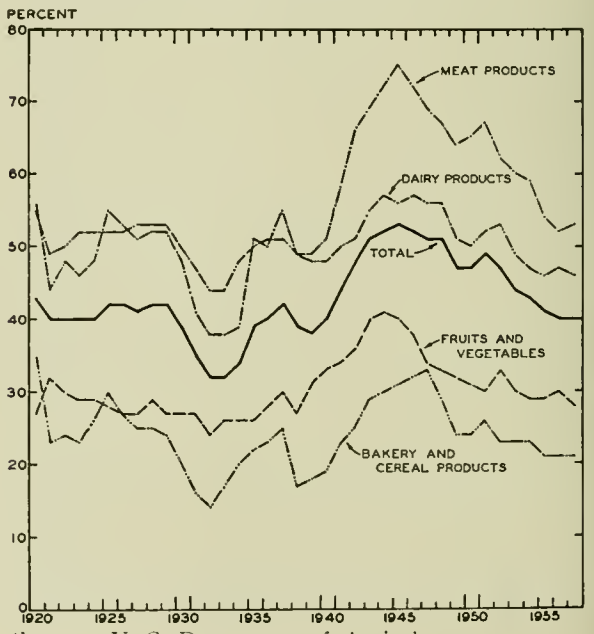
Charges for assembling, processing, and distributing farm-produced foods averaged about 4 percent higher in 1957 than in 1956. The marketing margin, or farm-retail spread, for the farm products in the total family "market basket" increased from an average annual rate of $582 in 1956 to $607 in 1957. This advance was the largest year-to-year increase since 1951 and was about three times the average annual rise during 1952-56.

The prices which farmers received for food products increased during the year for the first time since 1951. The farm value of foods in the market basket rose about 3 percent from an average annual rate of $390 in 1956 to $400 in 1957.

As a result of these changes, the farmer's share of each dollar consumers spent for farm foods remained unchanged at 40 percent. The trend in the farmer's share of the retail price of farm products is illustrated in the accompanying chart. This share measures gross returns and includes all costs as well as net profits.

Another result, of course, was that the consumer had to pay the grocer 4 percent more in 1957 than he did in 1956 for the same amount of food. The retail cost of the foods in the market basket rose from an average annual rate of $972 in 1956 to $1,007 last year.

FARMER'S SHARE OF RETAIL COST



Source: U. S. Department of Agriculture.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

School Enrollment

The results of a recent survey conducted by the Bureau of the Census indicate that school enrollment in the United States reached 41.2 million in October, 1957. At that time the number enrolled was approximately 27 percent higher than the number enrolled five years earlier. It is estimated that population growth accounted for about three-fourths of the increase and a higher proportion of youngsters enrolled in school accounted for one-fourth.

An appreciable increase between 1952 and 1957 was recorded in the fall school enrollment in each age group. The number of enrolled children between 5 and 13 years of age increased slightly more than 25 percent, and the number of students between 14 and 17 years of age increased by approximately 24 percent. The greatest percentage change in school enrollment came in the institutions of higher learning, where those between 18 and 24 years increased 42 percent, and those between 25 and 34 years rose 89 percent. The number in each age group in 1952 and 1957 is shown in the following tabulation (in thousands):

Age	October 1957	October 1952
5–13 years	28,534	22,756
14–17 years	9,067	7,341
18–24 years	2,745	1,935
25–34 years	820	433

The report indicated that 94 percent of the persons between 5 and 13 years old were enrolled in school in 1957 compared with 92 percent in 1952. For those 14 to 17 years old, the percentage increased from 85 to 90. For persons 18 to 24 years old the proportion rose from 15 to 20 percent, and for those 25 to 34 years old from 2 to 4 percent.

Growth in Number of Business Concerns

By the middle of 1957, the United States business population reached a record number of 4.3 million operating concerns. This represented an addition of about 30,000 firms from a year earlier. The recent rise was attributable to small net increases in all major industry groups except manufacturing and construction. This gain was about half the rise that occurred from mid-1955 to mid-1956.

The number of contract construction firms was off slightly last year, the first decline since the end of World War II. Though this industry experienced the largest losses in number of firms during the war, it was characterized by greater-than-average gains during the reconversion period. Except for seasonal variations the number of manufacturing concerns remained steady during the 1955-56 period but declined slightly between mid-1956 and mid-1957. Conversely the growth in number of retail trade firms was greater last year than the previous year. Gains in all other major industrial segments were approximately half as large as those of the previous year.

Building and Maintenance

Continental Materials Corporation, 6306 North Cicero Avenue, Chicago, Illinois, has announced the development and production of a multi-purpose building material called Calsi-Crete. Calsi-Crete, a lightweight cellular concrete, is so light that it can actually float. Reportedly, nails can be driven into it, and it can be sawed, chipped, and chiseled into numerous shapes. Also the material has unusual fire resistance, high insulation value, dimensional stability, and good acoustical qualities.

"Syncron," a chemical- and weather-resistant, fast-drying enamel paint, has been introduced to the market by M. J. Merkin Paint Company, Inc., of 1441 Broadway, New York, New York. Such an enamel paint can be used for all metal painting — both exterior and interior — including iron and steel, clean or rusted, as well as aluminum and galvanized iron. The recorded time for drying is five minutes. A better enamel for industrial and maintenance uses was the primary objective in the development of this new product, and both painted and unpainted surfaces react equally well to its application.

Minneapolis-Honeywell has developed a device to dim or brighten building lights according to the amount of natural illumination. A phototube is mounted outside the building next to the windows of the area to be controlled. It is expected that about five units would be needed to control the lighting of 20,000 feet of floor space. The estimated cost is $600.

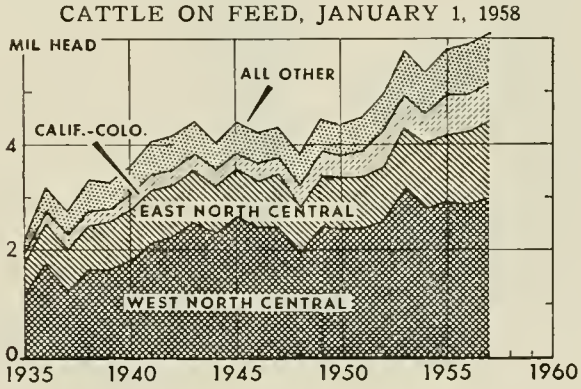
Expansion in Cattle Feeding

According to a recent article published by the United States Department of Agriculture in *Agricultural Situation,* cattle feeding is a booming business. Slaughtering of steers increased by almost two-thirds between 1951 and 1957. Stocks of cattle on feed are also at a new record at the end of the second period of rapid growth by this industry in the last twenty-five years. The first came in the late 1930's (see chart).

There are four main reasons for this increase: greater demand for beef in general and for higher grades of beef in particular; larger production of and lower prices for feed; changes in merchandising; and the introduction and spread of new technological methods.

Apart from the general increase in cattle feeding, there have been three major changes in feeding operations. First, feeding is no longer confined to the Corn Belt area but has expanded into the West and the South. Second, the feeding period has been shortened. Third, there is a growing emphasis on moderately high finish in cattle. Fewer coarse and underfinished cattle now go to slaughter, and extremely high finish in cattle has also become less popular.

CATTLE ON FEED, JANUARY 1, 1958



Source: U. S. Department of Agriculture, *Agricultural Situation,* January, 1958, p. 5.

LOCAL ILLINOIS DEVELOPMENTS

Most Illinois business indicators for December showed gains from the previous month. Manufacturing employment and construction contracts were important exceptions. Of the indicators registering increases, bank debits, life insurance sales, and petroleum production gained 13 percent, 11 percent, and 8 percent respectively.

Postal Receipts

Total Illinois postal receipts for 1957 amounted to $182.9 million, an increase of $10.9 million or 6.2 percent over a year ago. Except for the city of Bloomington, all twenty cities listed reported a rise in postal receipts, Chicago providing the lion's share with $9.3 million (see chart).

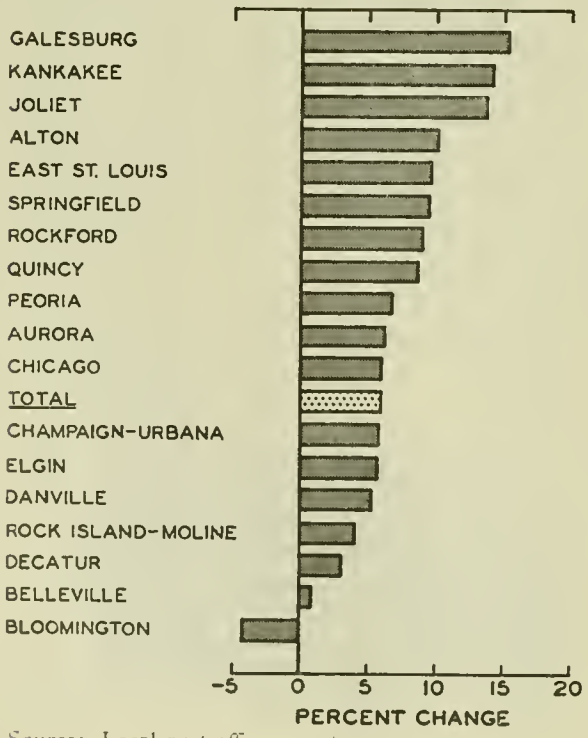
Even though the yearly figure for the State is higher than the previous one, it should be noted that there was no appreciable change during the last half of 1957 as compared with the same period a year ago. Postal receipts for the month of December showed a decline of 2.3 percent from December, 1956, with eleven cities out of the twenty listed reporting a decrease (see page 11).

Revolving Credit Study in Illinois

Revolving credit plans were found in use in 257 Illinois retail stores as of July, 1957. So reports Robert H. Cole in a recent publication titled *Revolving Credit* published by the Bureau of Business Management, University of Illinois. Known by various names but generally called "revolving credit," this type of plan, commonly found in retail stores today, is a hybrid between the open charge account and the installment account. It was used for 14 percent of their 1956 net sales, with a range from a low of 3 percent to a high of 60 percent. Surprisingly enough this type of credit plan was not peculiar to any one section of the State, nor to any one size of city, nor to any one size of store.

Most of the plans in Illinois have been introduced within the last three years, predominantly in department stores. A service charge of 1.5 percent per month was being used by the largest number of stores, with a substantial number reporting a charge of 1 percent per month. Others use a plan requiring a 6 percent payment at the time of the purchase. This would be equivalent to an annual rate of 20.5 percent for the six-month period in which payments must be completed.

CHANGE IN POSTAL RECEIPTS, 1956 to 1957



Source: Local post office reports.

Vegetable Crop

The Illinois Department of Agriculture reported that vegetable growers had another good year in 1957 with leading commercial vegetable crops valued at nearly $20 million. This was, however, 5 percent below 1956's vegetable crop in value and 4 percent below in acreage harvested. Onions and snap beans were the only fresh market crops that did not measure up in value to last year. All others — strawberries, cabbage, sweet corn, cucumbers, carrots, tomatoes, watermelons, and cantaloupes — exceeded their 1956 values.

The report further indicated that among commercially processed vegetables, sales of green peas and tomatoes were higher than in 1956, whereas those of asparagus and sweet corn declined. Illinois ranked third in the nation in the production of sweet corn for processing and fifth in green peas. The State ranked fifth in the asparagus market, sixth in production of tomatoes for processing, and ninth in sweet corn for fresh market.

Giant Shovel

One of the world's largest shovels has been put into operation by Midland Colleries, Inc., at its strip mining site in Knox County south of Galva. The bucket swings on a 140-foot boom and can scoop up more than 100 tons of earth at a bite. This is 70 cubic yards, enough to fill two railroad gondolas.

More than a year was required for the construction of the shovel and more than 80 rail cars were needed to move the parts. Total weight is 2,800 tons and when in operation, the shovel uses enough electricity to serve a city of 5,000. Coal will be moved to a Midland plant in Henry County for processing.

Missile Fuels

The Olin Mathieson Chemical Corporation has announced that the firm is developing solid propellants for missiles and rockets at its Ordill works near Marion and will test them south of Herrin. It was pointed out that there is no direct relationship between the solid propellants division and the company's other facility in the same area which manufactures explosives and related products.

The company has purchased a tract of waste stripped land south of Herrin on which it is installing test facilities. This will be the proving ground for the rocket propellants made at Ordill. The rocket motors will be imbedded in large blocks of concrete and held immobile so that there will be little disturbance in the area except for noise. If the operation is successful, there will be a constantly increasing demand for more people to operate the facility.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1957

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$50,569[a]	1,133,482[a]	$638,104[a]		$17,120[a]	$17,979[a]
Percentage change from	Nov., 1957	+138.8	+2.1	+8.7	+41	+13.1	+17.9
	Dec., 1956	+87.1	−1.3	+12.7	−1	+10.1	−2.3
NORTHERN ILLINOIS							
Chicago		$41,100	853,163	$480,426		$15,720	$15,698
Percentage change from	Nov., 1957	+187.7	+2.0	+12.5	+45	+13.9	+16.2
	Dec., 1956	+114.2	−2.8	+16.7	0	+10.8	−2.1
Aurora		$ 589	n.a.	$ 8,806		$ 68	$ 147
Percentage change from	Nov., 1957	−24.4		+3.7	+40	−0.5	+18.8
	Dec., 1956	+88.8		+0.4	−8	+3.8	−7.9
Elgin		$ 214	n.a.	$ 7,218		$ 44	$ 142
Percentage change from	Nov., 1957	−36.3		+11.9	+25	+3.5	+26.2
	Dec., 1956	−58.6		+10.8	+1	+6.2	+18.4
Joliet		$ 383	n.a.	$11,109		$ 82	$ 127
Percentage change from	Nov., 1957	−55.7		−8.3	+41	+2.0	+29.1
	Dec., 1956	−1.8		−14.0	−2	+0.4	−7.7
Kankakee		$ 113	n.a.	$ 5,531		n.a.	$ 63
Percentage change from	Nov., 1957	−82.6		−1.0	n.a.		+27.2
	Dec., 1956	+43.0		+12.3			+6.1
Rock Island-Moline		$ 531	26,421	$11,142		$ 105[b]	$ 172
Percentage change from	Nov., 1957	−26.1	+15.4	+1.2	n.a.	−2.3	+21.5
	Dec., 1956	+17.0	+15.3	+19.7		+8.4	−11.4
Rockford		$1,820	45,370[c]	$20,057		$ 184	$ 268
Percentage change from	Nov., 1957	+56.5	+3.2	+1.0	+46	+2.1	+38.5
	Dec., 1956	+0.4	+2.2	+5.2	−4	−2.6	+1.0
CENTRAL ILLINOIS							
Bloomington		$2,500	8,554	$ 5,542		$ 64	$ 88
Percentage change from	Nov., 1957	+1,932.5	+6.0	−4.3	n.a.	−3.9	+0.1
	Dec., 1956	+323.7	+1.4	+1.9		+2.8	−9.0
Champaign-Urbana		$ 122	12,450	$ 8,379		$ 69	$ 131
Percentage change from	Nov., 1957	−35.8	+4.3	−5.5	n.a.	−0.2	+42.8
	Dec., 1956	−71.6	+13.2	+5.5		−1.4	−0.1
Danville		$ 114	12,381	$ 6,066		$ 46	$ 81
Percentage change from	Nov., 1957	−4.2	−0.8	−9.9	+54	−5.2	+40.8
	Dec., 1956	−91.9	+6.5	−8.1	−9	−15.5	+0.2
Decatur		$ 360	35,633	$13,490		$ 118	$ 135
Percentage change from	Nov., 1957	−44.4	+0.3	+7.1	+42[c]	−3.6	+39.9
	Dec., 1956	−24.7	+5.8	+7.9	−3[c]	−5.8	+2.5
Galesburg		$ 856	9,012	$ 4,811		n.a.	$ 51
Percentage change from	Nov., 1957	+715.2	+2.8	+6.2	n.a.		+40.9
	Dec., 1956	+1,280.6	+6.2	+13.7			+9.8
Peoria		$ 787	49,106[c]	$18,217		$ 239	$ 322
Percentage change from	Nov., 1957	+89.6	−4.6	−1.1	+44[c]	+12.2	+24.9
	Dec., 1956	−2.2	−7.7	+1.4	−10[c]	+4.5	−11.4
Quincy		$ 166	10,243	$ 5,475		$ 47	$ 80
Percentage change from	Nov., 1957	−62.9	−7.3	+8.4	+42	+8.2	+21.3
	Dec., 1956	+167.7	+6.3	+4.7	−4	+11.2	−3.3
Springfield		$ 360	35,900[c]	$13,727		$ 128	$ 288
Percentage change from	Nov., 1957	+89.5	+3.2	−0.3	+46[c]	+11.1	+40.2
	Dec., 1956	+51.9	+4.6	−2.6	−4[c]	+5.3	−3.3
SOUTHERN ILLINOIS							
East St. Louis		$ 110	12,422	$ 8,668		$ 165	$ 83
Percentage change from	Nov., 1957	+64.2	+6.0	−0.1	n.a.	+17.8	+53.1
	Dec., 1956	+61.8	+5.2	−8.1		+9.6	−3.1
Alton		$ 396	12,487	$ 4,877		$ 41	$ 50
Percentage change from	Nov., 1957	+970.3	−0.4	−2.7	n.a.	+15.5	+57.5
	Dec., 1956	+292.1	−8.0	−2.1		+7.0	0.0
Belleville		$ 48	10,340	$ 4,563		n.a.	$ 55
Percentage change from	Nov., 1957	−36.8	+11.3	−9.1	n.a.		+41.3
	Dec., 1956	−28.4	+39.6	−2.4			−13.0

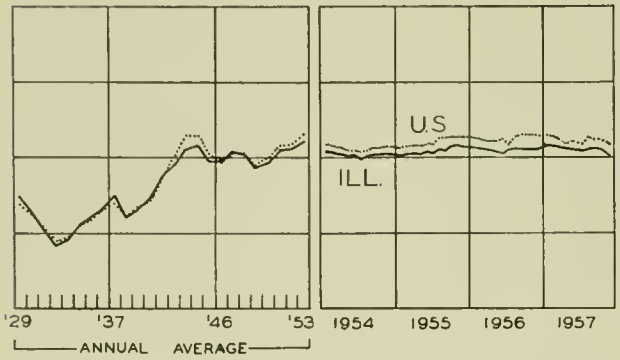
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for November, 1957. Comparisons relate to October, 1957, and November, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending December 13, 1957, and December 14, 1956.

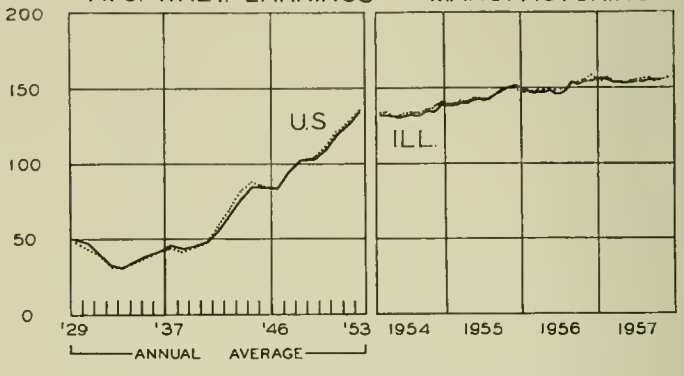
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

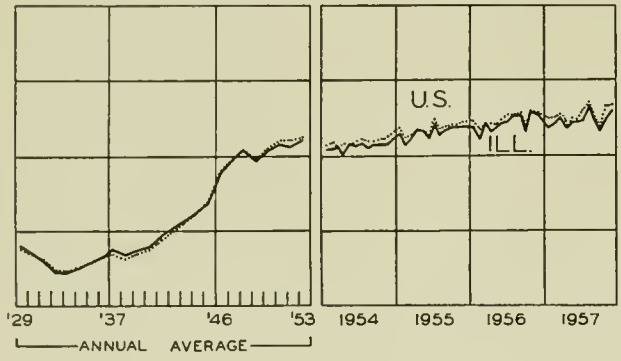
EMPLOYMENT–MANUFACTURING



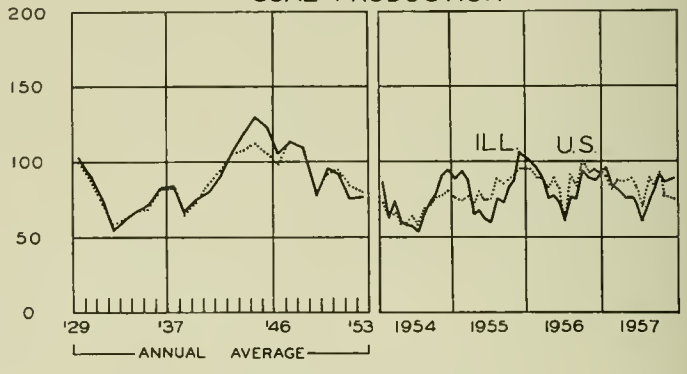
AVG. WKLY. EARNINGS — MANUFACTURING



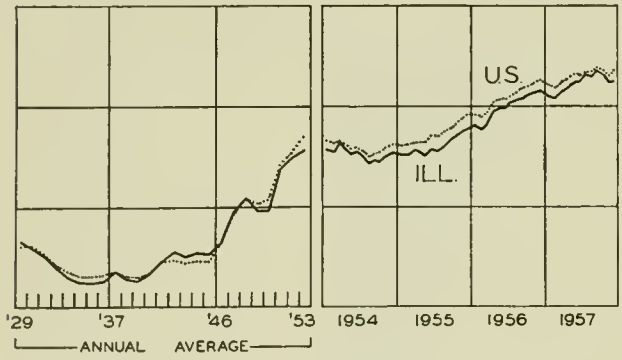
DEPARTMENT STORE SALES



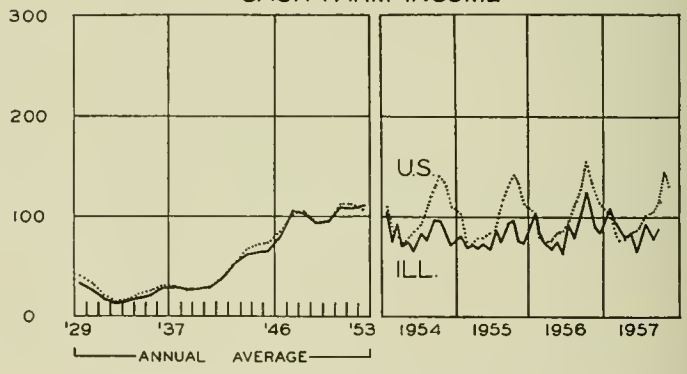
COAL PRODUCTION



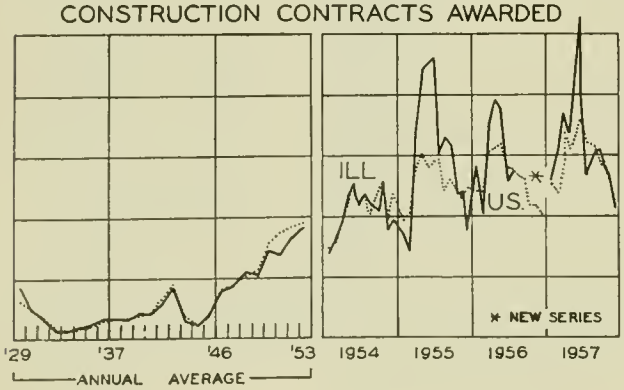
BUSINESS LOANS



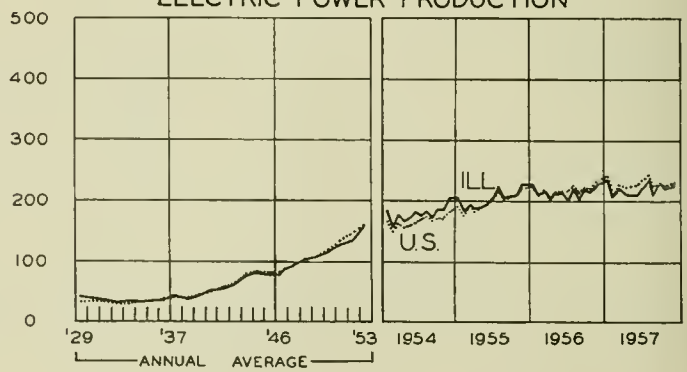
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XV | MARCH, 1958 | NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business activity continued to decline during February. Industrial production, which had fallen from 136 (1947-49 = 100) in December to 133 in January, dropped to 130 in the past month, after seasonal adjustment. Unemployment reached 5.2 million by the middle of the month. Department store sales dropped further in February, after January had fallen 5 percent below December on a seasonally adjusted basis.

Several steps have been taken recently to combat the business decline. The Federal Reserve Board lowered reserve requirements one-half of 1 percent and more recently permitted three of the district Reserve Banks to reduce their discount rates to 2¼ percent. Measures to increase the rate of government spending on defense and public works have been announced, but the effects of these were not evident in February.

Construction Outlays Maintained

New construction put in place declined seasonally from January to February, but the $3.1 billion total was a record for the month. Outlays in the first two months amounted to $6.3 billion, $140 million more than in the like period last year. Private spending accounted for $4.6 billion, up 2 percent from the 1957 months, while public construction totaled $1.7 billion, 4 percent more than the previous January-February record established last year.

In January, construction contract awards for all types of building were 10 percent below the month a year ago. Year-to-year declines were reported for nearly every major kind of construction. Residential awards, including public and private housing, fell 5 percent from the 1957 month to $777 million, reversing the year-to-year increases reported in the last half of 1957. Nonresidential construction contracts were off 17 percent from January, 1957, with industrial facilities falling 53 percent. Awards for heavy engineering projects, at $530 million, were 5 percent below January, 1957.

Auto Doldrums

Cold weather and heavy snows added downward pressure to the business decline in the automobile industry during February. Automobile assemblies for the month were down to 392,000, nearly 20 percent below January and 31 percent below February, 1957. It was the lowest level for February since 1952 and left the total for the first two months of 1958 down 27 percent from 1957.

Despite the decline in output, dealers' inventories climbed to nearly 900,000 cars, according to unofficial sources, more than two months' supply at current sales volume. Sales in the first two months are estimated at about 700,000, with February sales near 325,000, 20 percent below February sales in the recession year 1954.

Manufacturers' Inventories Fall

Liquidation of inventories in the hands of manufacturers increased sharply in January. Continued pessimism with regard to sales prospects led to a reduction in total stocks to $52.9 billion on a seasonally adjusted basis, a drop of $600 million in the month as compared with the $400 million cut in December and much smaller declines in the preceding three months. Despite the extensive liquidation, the ratio of inventories to sales rose further as the latter dropped an additional $400 million to $26.3 billion. Most of the declines in both sales and inventories occurred in the durable goods industries.

New orders placed with manufacturers in January also felt the effects of the business recession. A reduction of $900 million from December, again mainly in the durable goods industries and especially in electrical machinery and aircraft, pulled the total down to $24.2 billion, more than $4.5 billion below January a year ago. The decline in sales and new orders left the backlog of unfilled orders at $49.1 billion, down $1.6 billion from December and nearly $15 billion below the corresponding month a year ago.

Consumer Debt Falls Seasonally

Consumers reduced their installment debt by $368 million and their noninstallment debt by $442 million in January, lowering total consumer credit by $810 million to $44.0 billion. However, these reductions were in accord with the seasonal pattern; in January, 1957, installment debt fell $259 million and noninstallment debt dropped $700 million. After adjustment for seasonal influences, installment debt showed a rise in January of $83 million.

A decline of $170 million in automobile paper, compared with a reduction of $49 million a year ago, and a cut of $188 million in other consumer goods paper were the major elements in the installment credit shift. Small increases in single-payment loans and in service credit were outweighed in the noninstallment credit picture by the $496 million drop in charge accounts following the Christmas increase.

ILLINOIS BUSINESS REVIEW

Published monthly by the

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UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Outmoded World Politics

President Eisenhower puts great faith in the "tough-minded confidence" of the American people. The self-contradictory character of the concept should be warning that this faith may be misplaced. Because they are tough-minded, the people are realistic. They are confident when circumstances warrant, and for the same reason they lack confidence at other times.

The same warning applies to the responses of other peoples throughout the world. They, too, are tough-minded enough to make their own judgments about who stands for what and where their own interests lie. Overlooking this simple fact leads us into a foreign policy in which proclamations of idealistic principles and objectives are combined with actions that appear to foreign observers as primarily self-seeking in character.

Losing Propaganda Battles

Inability to see things from the other fellow's point of view may be one of the reasons why we are losing propaganda battles. The point is well illustrated by our repeated rebuffs of the Russian requests for a summit conference. These give opportunities to the Russians to emphasize seeming sincerity by means of nominal concessions. To Secretary Dulles, these are "fraud or hoax," because no genuine concessions are offered. To others, the Russians are consistently enabled to present themselves as the sole advocates of peace.

We, in contrast, seem to stand firm in demanding concessions before we even agree to bargain. Secretary Dulles holds that a summit conference must show reasonable prospects of ending fruitfully. Does this mean that our position is so inflexible that no bargain can be reached except as the other side is willing to give ground? President Eisenhower has indicated that a summit conference without advance preparation by a foreign ministers' conference would be completely unacceptable. Is he avoiding the burden of direct responsibility or merely insisting that Secretary Dulles' views must prevail? Both fear that failure of a summit conference would be damaging. Why, unless they are not sure of the validity of our position? Questions like these are bound to occur to other nations, including most of our Allies, who have less aversion to negotiation.

When this seeming intransigence on the diplomatic front is combined with our panic over the sputniks, it seems to constitute a pattern that might well frighten the world. Previously, we had decided to place sole reliance on "massive retaliation." The sputniks represent a threat to the bases from which the massive retaliation was to be launched. So we have hastily adopted a policy of putting a third of our striking force in the air and keeping it there, in shifts, all the time. This has placed all-out war only a misjudgment away. The incident on the Tunisian border shows what can happen when armed forces are in permanent attitude of attack. To lessen the tension, we have tried to create the impression that the bombers do not actually carry "armed" H-bombs. But the whole policy does not seem to make sense unless the bombs can be used, and most countries draw their own conclusions accordingly.

Threat of Trade Disintegration

Our problem in the field of foreign economic policy derives from the fact that it is out of Administration control. The Administration is sure that the foreign aid program remains a necessity. To put the proposed program through a reluctant Congress, President Eisenhower recruited Eric Johnston to stage a mass-meeting in Washington. Prominent speakers from both major parties were enlisted in its support. Needless to state, this major public relations effort did not silence the critics of the program. They assert that it is confused in objectives, wasteful, and poorly administered.

Perhaps the greatest part of the confusion arises from the increasing tendency to tie the program to Cold War objectives. We continue to view world politics as a kind of popularity contest in which everyone has to line up for us or against us. This distorts the world's view of the true elements of assistance offered by the program. The Near East fiasco illustrates the result — witness the Frankenstein we have created at the eastern end of the Mediterranean. Nevertheless, it is probably true that abandoning the program would be disastrous economically, for most other Western countries as well as for us.

Other foreign economic policies have more definitely become ventures in losing friends. The dumping of agricultural surpluses abroad has not solved the farm problem here and has antagonized friendly competing countries like Canada.

Most ominous of all is the position of trade policy. The Administration recognizes that protectionism cannot be reconciled with sound foreign policy, but is unable to deliver the goods. Possibly President Eisenhower could have pushed through membership in the Organization for Trade Cooperation last year, by making a fight for it, but now it is beyond revival. The fight currently centers on the extension of the Trade Agreements Act, and if this fails passage, the whole structure built up over a quarter century will come tumbling down.

There are always pressures for protection from domestic producers, and these grow more severe during a recession, when real evidence of hardship is easy to find. Protection may win the day despite two critical facts: Foreign competition may in fact add little to industry's woes; and a clear case can be made out against protection in terms of the over-all interests of the economy. It is significant that tariffs were raised to all-time highs by the Hawley-Smoot Tariff Act in 1930, during the early stages of a major decline.

(Continued on page 6)

ILLINOIS — LEADER IN PAINT PRODUCTION

The paint and varnish industry has expanded consistently since the end of the nineteenth century. Before that time — especially before 1867 when the first ready-mixed paint was introduced — a general sentiment existed that use of paint constituted unnecessary extravagance. However, by the 1880's the acceptance of manufactured paint became more widespread and became a major factor in the industry's steady growth. Only during the 1930's did the industry fail to expand.

The Postwar Industry

Sales for the paint and varnish industry reached a record $1.5 billion in 1956, an increase of 18 percent since 1952 and 256 percent since 1939. Production has grown, but not as rapidly as sales. The industry did not begin to compile data on physical volume until 1952 — and then industrial product finishes were excluded. The segment of the industry for which such data are available experienced an increase in production from 274 million gallons to 312 million gallons between 1952 and 1956.

The paint and varnish industry is less concentrated than most industries engaged in chemical manufacture. The three largest paint companies, led by Sherwin-Williams, accounted for one-fourth of the total value of shipments in 1954, and the twenty largest firms accounted for one-half of the total. Nationally, there were 1,470 paint establishments (excluding those which produced inorganic color pigments, whiting, and fillers) averaging $1 million in value of products shipped during 1954. Nearly one-third of these plants employed less than 4 persons, but the average working force was 39 persons, of whom 23 were production workers.

Paint products may be divided into two principal groups according to class of customer — trade sales products and industrial product finishes. About one-fourth of the total value of shipments of trade sales products is usually sent to retailers of the same company; nearly one-third goes directly to other retail stores, such as chain stores, department stores, and mail order houses; and one-fourth goes to wholesalers. Manufacturers ship about two-thirds of their industrial product finishes to industrial, commercial, and institutional firms, such as automobile makers, other manufacturers of consumer durables, railroads, hotels, and utilities. In 1956, an estimated 60 percent of total paint consumption was used in new construction and building maintenance, with automobile and furniture makers utilizing most of the remainder.

Trends and Problems of the Industry

Originally paint was used for decoration only. Today the industry is known for a variety of products which protect as well as decorate countless items. Much of the credit for this versatility belongs to the research laboratory, which has converted the manufacture of paint from a purely mechanical mixing process to a highly technical chemical procedure. Especially important postwar general developments include (1) the growing volume of paints using water as a spreading vehicle; (2) an increased use of titanium dioxide (a white pigment) and a decline in white lead as a base; (3) the increased manufacture of synthetic resin-based paints; and (4) the development of rubber-base paints. Possibly the most apparent trend resulting from these developments, which had the over-all effect of simplifying painting procedures, was the growing numbers of people turning to the "do-it-yourself" fad. To cater to this movement, many manufacturers have put inexpensive painting implements on the market.

In addition, a number of new paint products, superior in performance to anything yet developed, have appeared in the postwar period. Among these are a one-coat outside home paint; washable interior paint with a synthetic rubber base; floor enamels with high resistance to scuffing and wear, resulting from experiments with synthetic resins; and heat-resistant paints, derived from vinyl resins, which will withstand temperatures of more than 100 degrees greater than before.

The industry is not without problems. Trade sales, unlike industrial sales, are related to domestic paint needs and thus show pronounced seasonal variations. Paint manufacturers have also found that trade sales promptly reflect changes in the general business activity. They have found that painting is often deferred when economic activity declines and that sales are usually best in the recovery phase of a cycle.

Another problem characteristic of the industry is the gigantic operation of handling several thousand raw materials required by the modern plant. Most plants have large storage capacities, and rigid safety precautions are necessary to guard flammable materials, some of which are handled by remote control.

Illinois — First in Production

Illinois is the leading state in the manufacture of paint and varnish products, a distinction it has held throughout the postwar era. About 60 percent of its shipments are trade sales products. In industrial product finishes, Illinois follows New Jersey and Michigan in value of shipments.

The Illinois plants achieved more than $93 million in value added by manufacture in 1954 (the year of the last official census); and the figure is believed to have exceeded $100 million by the end of 1956.

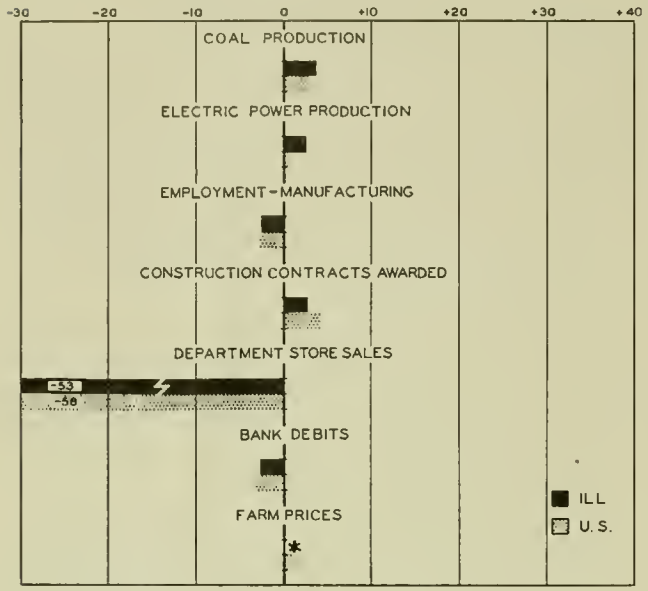
Although Illinois ranked fourth in number of plants (139) in 1954, it led all states in total employees, with 7,700. In addition, these plants had an average value added by manufacture of $674,000.

Nine-tenths of Illinois paint manufacturing takes place in the Cook County area where the Chicago plant of the Sherwin-Williams Company, the world's largest producer of paint, is located. The Chicago metropolitan area alone accounted for 10 percent of the nation's value added by manufacture in 1954, and with the St. Louis metropolitan area (which includes East St. Louis, Illinois) represented 16 percent of the national total. More than four-fifths of the industry's total employees in Illinois work in the Chicago area. Most of the State's production of paints and varnishes outside of Chicago occurs in East St. Louis, Galesburg, Springfield, and Rockford.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1957, to January, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	January 1958 (1947-49 =100)	Percentage change from Dec. 1957	Percentage change from Jan. 1957
Electric power[1]	233.4	+ 2.4	− 0.8
Coal production[2]	92.8	+ 3.7	− 4.1
Employment—manufacturing[3]	98.6	− 2.6	− 8.8
Weekly earnings—manufacturing[3]	156.0[a]	+ 0.2	− 0.4
Dept. store sales in Chicago[4]	113.0[b]	− 5.8	− 0.9
Consumer prices in Chicago[5]	126.1	+ 0.4	+ 4.2
Construction contracts awarded[6]	218.6	+ 2.7	−14.7
Bank debits[7]	190.2	− 2.9	+ 1.7
Farm prices[8]	83.0	0.0	+ 3.8
Life insurance sales (ordinary)[9]	258.7	−17.7	+ 1.0
Petroleum production [10]	134.6	− 1.6	+ 9.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] December data; comparisons relate to November, 1957, and December, 1956. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	January 1958	Percentage change from Dec. 1957	Percentage change from Jan. 1957
	Annual rate in billion $		
Personal income[1]	343.6[a]	0.0	+ 2.2
Manufacturing[1]			
Sales	315.6[a]	− 1.5	−12.3
Inventories	52.9[a, b]	− 1.3	+ 1.0
New construction activity[1]			
Private residential	13.4	−17.0	− 1.8
Private nonresidential	14.9	− 8.5	+ 4.9
Total public	11.1	− 4.0	+ 5.7
Foreign trade[1]			
Merchandise exports	19.7[c]	− 2.6	−18.4
Merchandise imports	13.8[c]	+10.3	+ 9.5
Excess of exports	5.9[c]	−23.8	−49.0
Consumer credit outstanding[2]			
Total credit	44.0[b]	− 1.8	+ 6.9
Installment credit	33.7[b]	− 1.1	+ 6.9
Business loans[2]	30.6[b]	− 5.0	+ 1.2
Cash farm income[3]	35.2[c]	− 8.5	+ 6.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	133[a]	− 2.2	− 8.9
Durable manufactures	143[a]	− 2.7	−12.8
Nondurable manufactures	126[a]	− 0.8	− 3.8
Minerals	122[a]	0.0	− 6.9
Manufacturing employment[4]			
Production workers	98	− 2.4	− 8.3
Factory worker earnings[4]			
Average hours worked	97	− 1.8	− 3.7
Average hourly earnings	158	0.0	+ 2.4
Average weekly earnings	153	− 1.8	− 1.4
Construction contracts awarded[5]	209	+ 4.2	−10.2
Department store sales[2]	131[a]	− 5.1	− 0.8
Consumer price index[4]	122	+ 0.6	+ 3.5
Wholesale prices[4]			
All commodities	119	+ 0.2	+ 1.5
Farm products	94	+ 1.1	+ 4.8
Foods	109	+ 1.3	+ 4.3
Other	126	− 0.1	+ 0.6
Farm prices[3]			
Received by farmers	91	+ 2.2	+ 3.4
Paid by farmers	120	0.0	+ 2.6
Parity ratio	82[d]	+ 1.2	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for December, 1957; comparisons relate to November, 1957, and December, 1956. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Feb. 22	Feb. 15	Feb. 8	Feb. 1	Jan. 25	Feb. 23
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,132	1,328	1,243	1,353	1,381	1,642
Electric power by utilities mil. of kw-hr	12,338	12,417	12,289	12,238	12,399	11,920
Motor vehicles (Wards) number in thous.	107	120	129	123	126	162
Petroleum (daily avg.) thous. bbl.	6,808	6,852	6,858	6,842	6,923	7,567
Steel 1947-49 =100	80	84	85	85	87	145
Freight carloadings thous. of cars	492	533	532	550	551	627
Department store sales 1947-49 =100	82	96	93	92	93	100
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.1	118.8	118.6	118.7	118.8	117.0[a]
Other than farm products and foods 1947-49 =100	125.8	125.8	125.8	125.9	126.0	125.5[a]
22 commodities 1947-49 =100	86.2	85.9	84.9	84.4	85.4	88.5
Finance:						
Business loans mil. of dol.	30,451	30,330	30,434	30,638	30,857	30,347
Failures, industrial and commercial number	317	319	342	326	333	300

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for February, 1957.

RECENT ECONOMIC CHANGES

Manufacturing Output and Hours

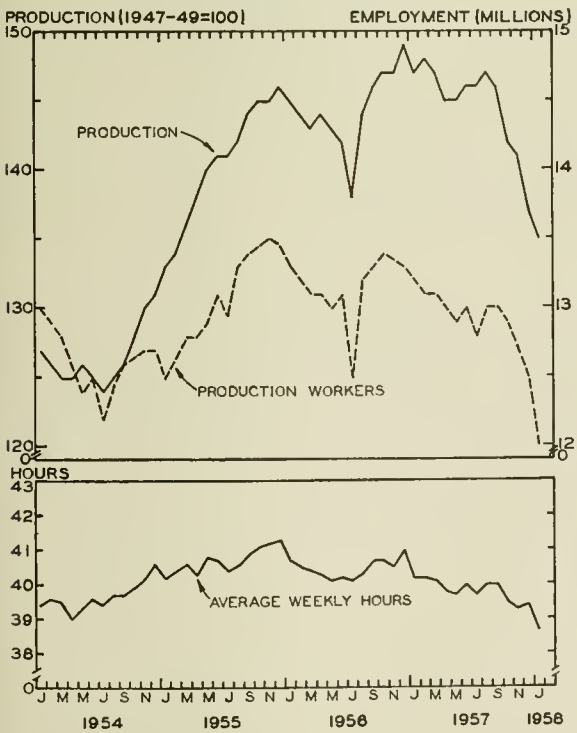
Manufacturing production continued to drop in January and fell to a three-year low of 135 percent (seasonally adjusted) of the 1947-49 average. The five-month decline which began last August has resulted in a 12 point, or 8 percent, drop in the Federal Reserve Board's index of manufacturing production. The January level of output was 2 points under the previous month.

As a result of the cutbacks in manufacturing activity, average hours worked per week and employment have also been substantially reduced in recent months (see chart). Since September, average weekly hours have fallen by over 3 percent; in January the average workweek was down to 38.7 hours, well under the 40.2 average hours worked in January, 1957. The greatest reductions during the month occurred in auto plants, textile mills, and furniture factories.

With substantial reductions in the durable goods industries leading the way, the number of production workers engaged in manufacturing fell by almost 8 percent during the last four months. This represented a decline from about 13 million workers in September to 12 million in January. In the twelve months from January, 1957, to January, 1958, the drop in production workers amounted to 1.1 million, with about 80 percent of this loss occurring in the durable goods industries.

As a result of the reduced hours of work, average weekly earnings of factory workers decreased by $1.47 from the December average to $81.27 in January. Compared with a year earlier, weekly earnings were down $1.14.

MANUFACTURING PRODUCTION, EMPLOYMENT, AND HOURS



Sources: Federal Reserve Board and U. S. Department of Labor.

Gross National Product

The nation's output of goods and services totaled a record $434.4 billion in 1957. However, a drop of $7.4 billion in the seasonally adjusted annual rate occurred in the fourth quarter as business turned downward. The 1957 gross national product was up $19.7 billion, or 4.8 percent, from the preceding year. All but one-fifth of the increase was accounted for by higher prices.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Billions of dollars)

	1957	*1956*	*4th Qtr. 1957**
Gross national product	434.4	414.7	432.6
Personal consumption	280.4	267.2	282.4
Durable goods	35.1	33.9	34.4
Nondurable goods	139.9	133.3	140.8
Services	105.4	99.9	107.2
Domestic investment	64.4	65.9	61.3
New construction	33.2	33.3	34.0
Producers' durable equipment	30.4	28.1	30.0
Change in business inventories	.8	4.6	−2.7
Nonfarm inventories only	.2	5.0	−3.4
Foreign investment	3.2	1.4	2.0
Government purchases	86.4	80.2	87.0
INCOME AND SAVINGS			
National income	358.0	343.6	n.a.
Personal income	343.4	326.9	345.5
Disposable personal income	300.6	287.2	302.1
Personal saving	20.2	20.0	19.8

* Seasonally adjusted at annual rates.

On a quarterly basis, the dollar value of GNP rose through the summer of 1957 and reached a peak annual rate of $440 billion in the third quarter. The sharp decline in the last quarter brought the annual rate to $432.6 billion. This figure was only $6.6 billion greater than the annual rate for the corresponding 1956 period.

Most of the decrease between the third and fourth quarters of 1957 was accounted for by a shift from a $3 billion rate of inventory accumulation to a $2.7 billion rate of inventory liquidation during the period. Net foreign investment and personal consumption expenditures, each down about $1.2 billion, accounted for the remainder of the decline in the closing months of the year.

Consumer Prices

Unusually harsh weather in Florida and Texas forced the Department of Labor's food price index up 2.1 percentage points from December to January. This advance represented a 1.8 percent increase in over-all food prices to a record level of 118.2 percent of their 1947-49 average. Fruit and vegetable prices, which jumped 7 percent during the month from 113.9 to 121.9, accounted for most of the rise in both food prices and the general consumer price index. While damaged crops experienced the largest advances, undamaged crops also sold at higher prices as consumers switched their buying away from the more seriously affected items. Compared with last year's January index of 112.9, food prices in the first month of 1958 were up 4.8 percent.

The over-all consumer price index, after holding steady in the two preceding months, reached a peak of 122.3 in January, up six-tenths of 1 percent from December's 121.6. This was the largest monthly rise since mid-1956, according to the department's Bureau of Labor Statistics.

The bureau indicated that even without the effects of adverse weather, there would have been a slight increase

in the general price index as lower prices for autos, house furnishings, and apparel were more than offset by increases in rent, repairs and maintenance, fuel oil, and some services. Higher prices reduced the buying power of factory workers' paychecks by more than 2 percent in January at the same time that such checks were shrinking because of shorter workweeks.

Machine Tool Demand

Orders for machine tools in December fell to the lowest level in more than eight years. New orders during the month totaled only $18.7 million, according to figures compiled by the National Machine Tool Builders' Association. This was 34 percent below new bookings in November and 65 percent below the $57.2 million of December, 1956. It was also the lowest figure since October, 1949, when only $16.2 million in net new orders were placed.

For the entire year the association reported a drop of 45 percent in orders. In 1957 bookings amounted to $519.8 million, compared with $924.0 million in 1956. Shipments, on the other hand, were down only 5 percent during the year, falling from $886.2 million to $843.2 million. However, this relatively small decline was a consequence of continuing high rates of shipments to fill orders placed many months ago. The NMTBA reported that the average backlog figure had dropped over the last year to an estimated three months from six months last January.

A 40 percent drop in foreign orders in 1957 contributed to the over-all decline. Tool builders attribute this drop to the growing capacity of the foreign machine tool industry, which indicates that even fewer foreign orders may be placed with United States concerns in 1958.

Exports Advance

The Commerce Department reported that United States exports reached a record high of $20.8 billion in 1957, compared with $19.1 billion in the previous year. Excluding government military aid shipments, exports of merchandise for the year amounted to $19.3 billion or $2 billion more than the total for 1956.

The peak in exports was reached in the first half of 1957, and the second-half decline was a contributing factor to the subsequent slowing of domestic business activity. Some of the expansion of export demand in the winter months of 1956-57 was the result of the Suez crisis and the poor European harvest in the summer of 1956.

In contrast to exports, United States imports increased at a slower pace in 1957 and reached a total of almost $13 billion, up from $12.6 billion in 1956. This represents a relatively small gain compared with sharp annual advances of about 11 percent in both 1955 and 1956. For the year exports led imports by $7.8 billion compared with an excess of $6.5 billion in 1956.

Unemployment Continues to Rise

Unemployment rose an additional 15 percent in February, bringing the total number of jobless to 5.2 million. The 679,000 increase during the month resulted primarily from further cutbacks in durable goods production.

Census data in thousands of workers are as follows:

	Feb. 1958	*Jan. 1958*	*Feb. 1957*
Civilian labor force	67,161	66,732	66,311
Employment	61,988	62,238	63,190
Agricultural	4,830	4,998	5,195
Nonagricultural	57,158	57,240	57,996
Unemployment	5,173	4,494	3,121
Seasonally adjusted rate	6.7	5.8	4.7

Outmoded World Politics

(Continued from page 2)

The reduction of trade, whether or not balance between exports and imports is maintained, tends to depress all the countries involved. It aggravates declines in business investment in plant and equipment, like the cutbacks now under way in this country. Any country that attempts to "export its unemployment" through protectionism hurts itself as well as others and is bound to encounter swift retaliation. The Congress should have the record of economic warfare during the 1930's put before it as a guide to present policy.

The Most Dangerous Game

The best means of preventing another such debacle lies in doing everything possible to restore the level of activity in our own economy. Now that unemployment has risen to 5 million, various measures to create jobs are being considered. Some hesitant steps have already been taken. Credit has been eased somewhat, restrictions on military budgets have been relaxed, and public works projects under existing authorizations are being speeded a little. More will be done as the decline progresses. The case for a tax cut is discussed elsewhere in this issue.

What is being done will be all to the good, though probably inadequate. Under these circumstances there will be a tendency to turn to military spending as the one program where a big increase can be achieved quickly.

This runs counter to a strong undercurrent of sentiment which holds that the military programs should be determined independently of business conditions. With some, it is a moral issue; with others, a matter of good government planning. However, lack of adequate criteria for judging requirements makes these arguments inconclusive. The feeling that the military situation is urgent enough to require larger programs in any case has been bolstered by post-sputnik reports on national security programs recommending large increases with a view to achieving a preponderance of military power.

This conflict of views dwindles in significance, however, when it is viewed in global perspective. The armaments race endangers the whole world, and therefore the most important concern must be the improvement of international relations. It may well be that we have to keep our military programs strong in order to arrive at a satisfactory settlement, but our determination to fight if necessary should not lead to unwillingness to put military action aside by mutual agreement.

Nor should we permit ourselves to be diverted from this primary goal by the decline in business. Widespread economic hardship produces unusual political pressures. To permit the situation to get out of hand with respect to military expansion would be to afford the Communists another demonstration of the thesis that the "capitalist crisis" leads to military adventuring.

The objection is made that the Russian peace offensive seems well designed at this juncture to push us deeper into depression. If so, it may still be necessary to choose that as the lesser of two evils. It would neither leave them without problems nor damage us unduly; for we must ultimately seek a solution of our economic problems in a peaceful world. The instability of a world in an armaments race can hardly be considered an economic millenium, and any reluctance to negotiate our way out of it looks like a refusal to face the inescapable realities of a situation in which man's power has outgrown his political institutions.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Retail Trade

Retail stores established an all-time monthly record of sales in December with a total of $19.9 billion. This was 2 percent higher than the figure for December, 1956, and 16 percent higher than the previous month's total. Compared with December, 1956, most major businesses indicated sales increases.

The annual sales for 1957 also set a new record of $200 billion. This was a 5 percent rise over the previous high established in 1956. Furthermore, it was reported that all major components of business shared in this new record for annual sales, with the exception of the furniture group, which registered a decrease of 1 percent. The following gains were reported in annual sales: food, 8 percent; automotive, 7 percent; apparel, 6 percent; eating and drinking places, 3 percent; and general merchandise, 2 percent.

Advertising Outlays

Advertising outlays in 1957 as estimated by *Printers' Ink* amounted to $10.4 billion. This represents a new annual peak and the fifteenth consecutive yearly increase in outlays for advertising. However, the advance in advertising expenditures during 1957 was about 5 percent, one of the smallest in the postwar period, and resulted primarily from rate hikes rather than any real increment in volume. The dollar volume of advertising has increased at an average annual rate of 11 percent since the mid-1940's, whereas retail sales, personal consumption expenditures, and gross national product have risen at average annual rates of 8 percent, 7 percent, and 6 percent respectively. The largest annual gains came immediately after World War II, when advertising expenditures increased 17 percent in 1946, 27 percent in 1947, and 14 percent in 1948.

The main media for advertising are newspapers, direct mail, television, radio, magazines, and farm publications. The most striking development during 1957 was in radio; its share of advertising outlays increased to 6.2 percent as compared with the low of 5.7 percent in 1956. Newspapers continued to receive the largest outlays — $3.3 billion, or 32 percent of advertising. Direct mail and television are the next largest sources, with shares of $1.5 billion, or 14 percent, and $1.3 billion, or 13 percent, respectively.

Pension Plans

Private pension and retirement programs constitute one of the fastest growing of the nation's thrift channels, according to the Institute of Life Insurance. These programs currently cover nearly one person in every three in private nonfarm employment. There were 16.5 million participants in 1957, an increase of 83 percent since 1950. Approximately 1.3 million persons, or three times as many as in 1950, are drawing a pension or receiving a retirement benefit under these plans. These persons are now receiving $1.1 billion a year in pension payments. In 1950 payments amounted to little more than $350 million.

At the end of 1957 the estimated reserves of these programs were $34 billion, an advance of $23 billion or 204 percent from 1950. The 1957 increase of about $4 billion was the largest ever recorded. Employers and employees combined contributed $4.4 billion in 1957. Of this amount, employers contributed about 85 percent. Insured pension plans account for about one-third of those enrolled under private pension and retirement programs. The reserves behind the insured plans, exceeding $13 billion, make up about 40 percent of the reserves behind all private pension and retirement programs.

Public and private pension and retirement programs show a combined contribution of about $15 billion a year. Although combined public and private pension payments have shown a rate of growth four times as fast as the contributions during the past seven years, they are still only a small fraction of contributions. They are estimated to be at least $8 billion a year. Based on 1956 figures, more than 8 million persons 65 years old and over, or more than half of this age group, have some assured lifetime income under a public or private retirement program exclusive of life insurance or other savings.

New Household Products

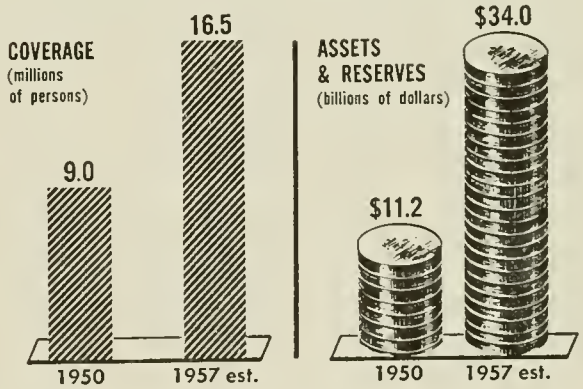
A well-known British textile firm recently announced the development of a carpet underlay that can take the place of central heating in mild climates. This electrically heated carpet underlay is similar to an electric blanket, with a connection which can be plugged into the wall. The carpet is so designed that floor temperatures of 70 to 75 degrees Fahrenheit can be maintained, heating all the air in the room evenly and providing maximum comfort. This development is the result of eighteen months of research and experiment. A special company, Thermalay, Limited, located in Shelf, England, was organized for the commercial distribution of this product.

"Geo-Gems," commonly referred to as mosaic inserts, are being produced by Geometric Floors, Inc., 715 Second Avenue, New York, New York. These inserts are available in all designs and colors for brightening a vinyl tile floor. They are assembled in a galvanized steel base which is lined with waterproof and acidproof cement. The inserts, or panels, range from two-inch squares to 36-inch circles and are inserted as a complete unit in the vinyl tile floor.

A new material called "Oxone," an odorless household bleaching product, has been developed by Du Pont. This bleach may be used on the most delicate fabrics and is designed for use in packaged dry bleaching preparations or in cleansers.

GROWTH OF PRIVATE PENSION PLANS

(Insured and noninsured combined)



Source: Institute of Life Insurance.

TAX REDUCTION NOW?

RICHARD A. MUSGRAVE
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During recent weeks there has been an increasing demand for tax cuts. This reflects the growing concern with the depth and staying power of the current recession and the fear that it might turn into a serious depression. Moreover, it reflects the view that tax reduction is a proper way to deal with the matter, even though public expenditures will remain at a high level. Calling the baby by its true name, a deficit in the public budget is held necessary to sustain the economy.

The Case for Tax Reduction

The reasoning behind this conclusion is clear enough. If the economy is to operate at a high level, there must be a sufficient demand to take the full employment product off the market. The current recession came about because the level of demand has slackened, and failed to keep step with growing capacity. Cutting tax rates is a way of restoring a higher level of demand. As tax rates are cut, the disposable income of the taxpayer is increased. Having a larger income, the taxpayer will spend more; and this will permit the economy to shift back into high gear.

This argument implies that government expenditures are not cut, even though tax rates are reduced. If government expenditures are cut at the same time, the loss in government demand must be offset against the gain in private demand. Chances are that total demand would then decline on balance. The crux of the matter, therefore, is that the tax cut should not be matched by a decline in public expenditures.

Indeed, expansionary fiscal policy may take the form of increased expenditures rather than tax reduction, or there may be a combination of both. If we accept the need for increased defense outlays as presented in the Rockefeller Report, there appears to be ample justification for action along these lines; and needs in other areas, such as aid to education, point in the same direction.

To the extent that expenditures are increased, the need for tax reduction will be lessened. Nevertheless, it is well to be wary of this line of reasoning. If public services are needed, they should be justified on their own merits, rather than as a means of raising the level of demand. Public services should not be made excessive just because there happens to be a potential recession, and they should not be made deficient just because there happens to be inflationary pressure. Only if public services are considered on their own merits will we obtain the proper allocation of resources between public and private use. On this principle there should be ready agreement, quite independent of whether one happens to favor more or less public services.

Efficient fiscal policy thus places heavy reliance on tax adjustments as a compensating device. This requires that budget balancing be abandoned as a primary objective of fiscal policy. A compensatory policy requires that the budget be underbalanced in times of potential depression and overbalanced in times of potential inflation, at least where such potential inflation originates from the demand rather than from the cost side of the market. Right now we are confronted with a potential depression situation and we should act accordingly.

The budget outlook for fiscal year 1959, as presented in the President's Budget Message, shows a surplus of $600 million in the consolidated cash budget, which is the more significant one in dealing with the economic aspect of the budget. However, the budget estimates seem to be based on too optimistic a view of the situation. My guess is that receipts may fall $2 billion below the official estimate because the projected income levels of income are not likely to be realized. Also, Congress may provide a higher level of expenditures than is recommended. Hence, assuming the continuation of present tax rates, we may well have a deficit of, say, $3 billion.

This is better than nothing, but it is hardly enough. A reduction in tax rates, releasing, say, an additional $5 billion of yield, appears needed. Although the immediate deficit will be larger as a result, the level of income will be higher. The deterioration of economic activity will be halted sooner, and the need for deficit policy may be less sustained, in the longer run, than will be the case if the downturn is permitted to deepen.

Lack of Flexibility in Tax Policy

One of the difficulties with stabilization policy is that it takes time to introduce policy adjustments and more time for such adjustments to work themselves out. But our ability to predict changes in business conditions is as yet too weak to permit adequate advance measures. Therefore, adjustments have a way of coming too late.

Consider the present outlook. The President has stated that we are still in the process of a deepening recession, but that employment will turn up shortly and that the economy will be back in an upswing by summer; and he expects this to be the case in the absence of tax reduction and with only very moderate additions to public expenditures. While this view is considered too optimistic by an increasing number of people, including myself, the President and his economic advisers may prove to be right. My main point is that there is a considerable uncertainty in such matters.

The only thing we can be sure of right now is that it would have been a good thing to plan for tax reduction in the summer of 1957, to be effective as of January 1, 1958; but the situation hardly seemed sufficiently urgent at that time. Now, the earliest practicable action seems for a tax cut to be effective in June, which is late. By that time, the major need may have passed; or the economic decline may have gained momentum, so that a tax cut will be less effective than if undertaken earlier.

My emphasis is on the uncertainty of the situation and the need to arrange our administrative and political process so that we can act promptly. For several years now there has been much emphasis on the beauties of built-in flexibility, on the fact that tax yields will decline with given rates as the gross national product falls (or rise as the gross national product increases) and that this will in itself be a stabilizing factor. While built-in flexibility in the fiscal system is highly desirable, I do not believe that it is sufficiently potent.

At present levels of tax rates, the built-in flexibility of the Federal tax structure may be expected to dampen a potential change in gross national product by about one-third or slightly more. This is helpful, but it is not enough. Nor do I believe that much can be done to increase the built-in flexibility of the tax structure. If we are to deal with the problem of instability in an adequate fashion, it

remains necessary to place the major emphasis upon discretionary action.

In order to render adjustments in tax rates a more flexible tool of fiscal policy, two types of tax legislation must be distinguished. First, the customary review of the tax structure must continue on an annual basis as in the past. The purpose of this review would remain that of dividing the cost of public services equitably among various groups of taxpayers, and of setting the over-all level of yield as required by the prospective level of budget expenditures and the likely economic outlook for the coming year. Second, there is the additional task of using tax policy as a short-run stabilization device, and this cannot be done effectively by annual adjustments. This problem, as it were, is one of driving the car while it moves along, of making the turn when the bend in the road appears.

Proposed Remedy

To make such adjustments possible, I suggest that Congress each year provide for a margin of flexibility in tax rates and instruct the President to raise or lower rates within this margin when needed to check inflation or deflation, in line with his functions under Section 2 of the Employment Act. This delegation of authority would be very specific, both as to the type and the range of adjustment. Thus, the Congress might authorize the President to raise or lower income tax exemptions by $100; or he might be authorized to increase or reduce bracket rates by a flat 5 percent. Still other types of adjustments may be chosen, such as a change in the first two bracket rates by 3 percentage points. My present concern is not with the specific terms of the adjustment which the President would be authorized to make, but with the principle of the matter. This authorization would be subject to annual review by Congress, in connection with the general review of the tax structure, and changes in its terms would be made as the situation requires.

This plan may seem new and drastic, but I believe that it could be applied without much difficulty and that it would greatly add to the government's ability to deal promptly with emerging elements of instability. Without going into detail, I shall anticipate certain objections. To begin with, I am aware that the power to tax is vested in the Congress, as it should be, and that a delegation of this power to the Executive is not permissible under the Constitution. While I am not competent to discuss the legal question involved, it would seem that the proposed measure does not constitute such a delegation. It does not in any way negate the congressional control over the nation's pursestrings, and it has no effect whatever on the need for legislative authorization of expenditure programs. The only authority which would be delegated is that of making short-run changes in the level of tax rates; these changes would be held within limits and forms prescribed by Congress; and they could be applied only as needed to carry out a congressional mandate — the executive responsibility for full employment and price level stability as spelled out in the Employment Act.

Still, it might be asked whether this function may not be performed equally well by Congress. While I feel that this cannot be done effectively through the annual process of revenue legislation, it may be possible to place responsibility for current rate adjustments with a congressional committee, say, the Joint Committee on Internal Revenue, or the Joint Economic Committee. This may serve the same purpose, but I would personally think it preferable to place this responsibility for short-term adjustments with the Executive Branch.

The need for discretionary action is accepted as a matter of course when dealing with the monetary controls of the Federal Reserve. These controls are most important, but again I do not believe that they are enough. While the Reserve authorities are in a position to act quickly, the effects of monetary changes do not take hold with equal promptness, and they may not be sufficiently powerful, especially where anti-recession action is concerned. Finally, note that Federal Reserve policy is not within the responsibility of the Executive Branch. I would welcome this plan as a means of endowing the Executive Branch with a tool of stabilization policy which would be its own responsibility, and for the use of which it could be held responsible by the voter.

Longer-Run Aspects

One of the great advantages of this proposal is that it would permit a temporary tax reduction without a general change in the tax structure and without impairing its over-all yield potential. Short-run adjustments could be rendered more or less independent of these longer-run aspects of tax policy. The importance of this becomes apparent once we relate the needs of the immediate situation to the requirements for fiscal policy in the future.

As we look ahead over the next ten years or so, prospects for tax reduction will depend on two factors, one being the level of public expenditures and the other being the buoyancy of the economy. Consider first the level of public expenditures. If this level grows at the same rate as our gross national product, the growth in public expenditures will be matched approximately by the growth in tax yield from prevailing rates of tax. If expenditures grow less rapidly, a surplus will develop, and (unless there is a concurrent growth of inflation pressure) a reduction in tax rates will be in order. The rate of expenditure growth in turn will depend very largely upon defense requirements. In view of the needs outlined by the Rockefeller Report, I see little likelihood that we shall be able to afford an expansion in defense outlays at a lesser rate than income grows. Fiscal policy planning must assume that defense outlays will have to grow at this rate or more. There is little chance for tax reduction on these grounds, unless a substantial change in the international climate should develop.

If such is the case, tax reduction would be called for only if we move into a period of persistent depression, calling for a sustained policy of deficits in the public budget. I do not believe that the signs point in this direction, but such a possibility cannot be excluded. Lest I be misunderstood, I do not refer to the possibility of a prolonged period of severe unemployment. Such could occur only in the absence of responsible stabilization policy. Rather, I refer to a period during which an expansionary fiscal policy is needed to forestall this contingency. Given the proper policy, such a period could be one of high employment and income and of continued economic growth.

However this may be, the outlook is uncertain. It is also possible, and perhaps more likely, that before very long we may return to a situation where restrictive measures are called for. Given this uncertainty, it is important to meet the immediate need for tax reduction without dismantling the tax structure and without weakening its ability to meet future requirements. The suggested plan for flexibility in rate adjustments is well suited to deal with this situation.

LOCAL ILLINOIS DEVELOPMENTS

With few exceptions, Illinois business activity for January showed little change from December. Life insurance sales dropped 18 percent, and department store sales, seasonally adjusted, declined by 6 percent. Coal production showed the largest gain over December with a 4 percent increase.

Year-ago comparisons indicated gains of 9 percent for petroleum production and 4 percent for prices. Decreases from January, 1957, amounted to 15 percent in construction contracts awarded, 9 percent in manufacturing employment, and 4 percent in coal production.

Telephone Conversion

The management of the Champaign Telephone Company and the Inland and Midland Telephone Companies has announced a new loan of $295,000 obtained from the Rural Electrification Administration. The two individuals who own the first company operate the second and third companies. A total of approximately $3,500,000 has been advanced to the three companies by the REA for the purpose of dial conversion and system improvements in their 29 exchanges. The three firms have about 6,000 subscribers located in the central and southern parts of the State, with more than half of them rural. The companies report that 80 percent of the households in their service area have telephone service.

Most of the new loan will be used for conversion to automatic dial and central office equipment for the Ludlow Exchange. The Champaign area will receive $50,000 of the loan for additions to its plant and equipment to permit direct distance dialing when this service is available from the Bell System.

Plant Expansion in the Chicago Area

A number of companies have recently announced plans for construction of new plants or additions to old ones in the Chicago metropolitan area. The Witco Chemical Company, Chicago, will soon start construction of an addition to its plant. It is estimated that this new addition will be capable of producing about 20 million pounds of phthalic anhydride annually.

In Elgin the Brethren Press is building a new publishing plant. The new plant will have 90,000 square feet of floor space, which includes production as well as office space. It is planned to be completed sometime during the summer of 1959. National Vulcanized Fibre Company, Chicago, has doubled its floor space in a new plant in Broadview. It contains 23,000 square feet of floor space, and the entire operation of manufacturing plastic and fibre products will be located in the new plant.

Farms and Uses

The latest farm census by the State-Federal Crop Reporting Service has recently been released. It indicated a continuation of the trend toward fewer and larger farms and a continued decline in the amount of land devoted to farming in Illinois. The data for the report were compiled following last spring's annual assessment by the county assessors. At that time there were 173,750 farms in Illinois covering 30,931,463 acres, a drop of 3,617 farms from the 1956 census figures. Part of the loss was attributed to additional highway demand for more land. La Salle County in the north central portion of the State was reported to have the largest number of farms of any county with a total of 3,550. McLean County in mid-state reported the largest farm acreage, 725,474 acres.

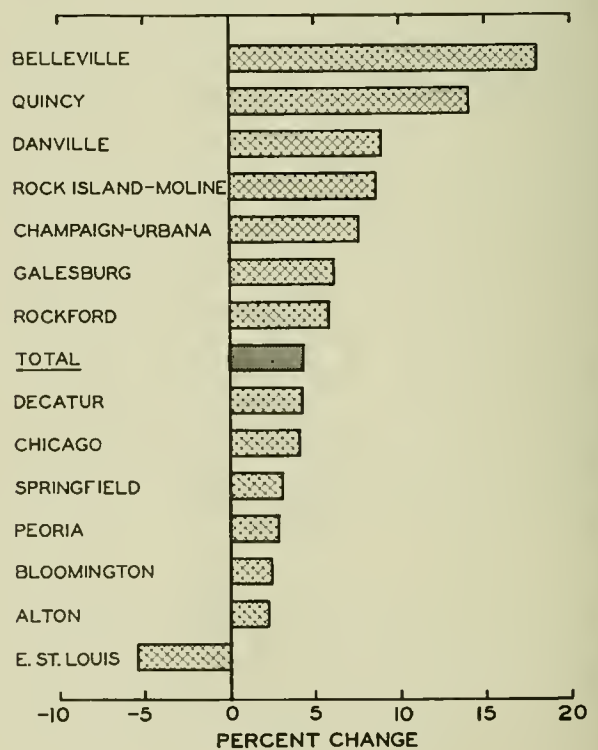
The census report contains additional information regarding the uses of farm land. The wide variety of products grown in Illinois is attributed to its oblong shape and location, resulting in variety of weather and growing seasons. This has led the State-Federal Crop Reporting Service to divide the State into nine sectors. In 1957 cotton was produced on 1,839 acres located solely in Alexander and Pulaski counties. In 1956 when Illinois corn production broke all records, the census figures showed that the northwest sector planted more corn than any other sector, 1,392,259 acres. The west, central, and east sectors together planted 3,095,956 acres.

Electric Power Consumption

Electric power consumption in Illinois rose from 37.7 billion kilowatt-hours in 1956 to 39.0 billion kilowatt-hours in 1957, an increase of 3.3 percent. There were only three months during the year, February, May, and June, in which less electric power was consumed than in the corresponding months of 1956. Total electric power consumption increased during 1957 in each of the sixteen largest cities in Illinois with the exception of East St. Louis (see chart). The amount consumed by these sixteen cities was 13.6 billion kilowatt-hours or approximately one-third of the electric power consumed for the entire State.

Even though East St. Louis showed a year-to-year decline of 5.4 percent, the last six months of 1957 recorded an upward movement exceeding that of 1956. Alton, however, reported just the opposite tendency, with the last six months dropping approximately 12 percent.

CHANGE IN ELECTRIC POWER CONSUMPTION, 1956 TO 1957



Source: Local power companies.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$22,862[a]	1,162,695[a]	$705,673[a]		$16,624[a]	$14,079[a]
Percentage change from Dec., 1957	−54.8	+2.6	+10.6	−53	−2.9	−21.7
Percentage change from Jan., 1957	−17.7	−1.9	+2.5	−2	+1.7	+0.6
NORTHERN ILLINOIS						
Chicago	$15,310	873,968	$521,248		$15,237	$11,815
Percentage change from Dec., 1957	−62.8	+2.4	+8.5	−52	−3.1	−24.7
Percentage change from Jan., 1957	−37.6	−2.9	+4.8	−2	+2.0	−0.2
Aurora	$ 596	n.a.	$10,333		$ 71	$ 148
Percentage change from Dec., 1957	+1.2		+17.3	−58	+5.5	+1.1
Percentage change from Jan., 1957	+246.5		−2.5	−7	+9.8	+6.2
Elgin	$ 83	n.a.	$ 7,805		$ 44	$ 112
Percentage change from Dec., 1957	−61.2		+8.1	−61	−0.5	−21.5
Percentage change from Jan., 1957	+20.3		−4.6	−3	+6.6	+9.7
Joliet	$ 457	n.a.	$13,395		$ 80	$ 125
Percentage change from Dec., 1957	+19.3		+20.6	−56	−2.5	−1.2
Percentage change from Jan., 1957	+402.2		−14.6	+3	−3.2	−0.6
Kankakee	$ 108	n.a.	$ 7,007		n.a.	$ 55
Percentage change from Dec., 1957	−4.4		+26.7	n.a.		−12.9
Percentage change from Jan., 1957	+42.1		+3.4			+7.7
Rock Island-Moline	$ 438	26,552	$13,036		$ 106[b]	$ 215
Percentage change from Dec., 1957	−17.5	+0.5	+17.0	n.a.	+1.0	+25.1
Percentage change from Jan., 1957	+54.8	+8.1	+8.8		+4.1	+26.6
Rockford	$ 752	48,411[c]	$22,209		$ 184	$ 267
Percentage change from Dec., 1957	−58.7	+6.7	+10.7	−64	−0.0	−0.4
Percentage change from Jan., 1957	+10.9	+0.5	−0.8	−13	−0.4	−2.5
CENTRAL ILLINOIS						
Bloomington	$1,234	8,593	$ 6,841		$ 71	$ 94
Percentage change from Dec., 1957	−50.6	+0.5	+23.4	n.a.	+10.1	+7.2
Percentage change from Jan., 1957	+3,756.2	−1.1	−4.0		−4.2	+1.7
Champaign-Urbana	$ 132	12,726	$ 9,895		$ 74	$ 123
Percentage change from Dec., 1957	+8.2	+2.2	+18.1	n.a.	+7.3	−5.8
Percentage change from Jan., 1957	−17.0	+12.2	+3.8		+0.2	+6.4
Danville	$ 614	12,944	$ 7,704		$ 50	$ 72
Percentage change from Dec., 1957	+438.6	+4.6	+27.0	−63	+8.0	−10.2
Percentage change from Jan., 1957	+243.0	+7.9	−8.0	−12	−15.6	+4.0
Decatur	$ 618	34,298	$14,562		$ 123	$ 143
Percentage change from Dec., 1957	+71.7	−3.7	+7.9	−54[c]	+3.9	+6.2
Percentage change from Jan., 1957	+106.0	+3.1	−3.4	+4[c]	−5.0	−2.7
Galesburg	$ 111	9,700	$ 5,686		n.a.	$ 48
Percentage change from Dec., 1957	−87.0	+7.6	+18.2	n.a.		−5.8
Percentage change from Jan., 1957	+6.7	+4.3	+4.6			+5.9
Peoria	$ 250	50,611[c]	$21,560		$ 216	$ 291
Percentage change from Dec., 1957	−68.2	+3.1	+18.5	−60[c]	−9.5	−9.5
Percentage change from Jan., 1957	−42.3	−10.4	−5.3	−15[c]	−6.5	+3.6
Quincy	$ 150	10,296	$ 6,289		$ 45	$ 86
Percentage change from Dec., 1957	−9.6	+0.5	+14.9	−59	−3.6	+7.1
Percentage change from Jan., 1957	−5.7	+4.4	−3.2	−2	+4.0	+7.1
Springfield	$ 285	37,829[c]	$16,134		$ 129	$ 279
Percentage change from Dec., 1957	−20.8	+5.4	+17.5	−55[c]	+1.0	−3.0
Percentage change from Jan., 1957	+31.3	+4.7	−7.4	+5[c]	−0.7	+3.6
SOUTHERN ILLINOIS						
East St. Louis	$ 65	13,087	$ 9,979		$ 156	$ 105
Percentage change from Dec., 1957	−40.9	+5.4	+15.1	n.a.	−6.0	+26.4
Percentage change from Jan., 1957	−24.4	+7.4	−11.1		−4.1	+1.4
Alton	$1,474	13,075	$ 6,346		$ 40	$ 45
Percentage change from Dec., 1957	+272.2	+4.7	+30.1	n.a.	−4.1	−9.2
Percentage change from Jan., 1957	+1,502.2	−11.7	+5.4		+1.5	+2.5
Belleville	$ 185	10,605	$ 5,645		n.a.	$ 55
Percentage change from Dec., 1957	+285.4	+2.6	+23.7	n.a.		0.0
Percentage change from Jan., 1957	+94.7	+31.8	−6.6			+1.5

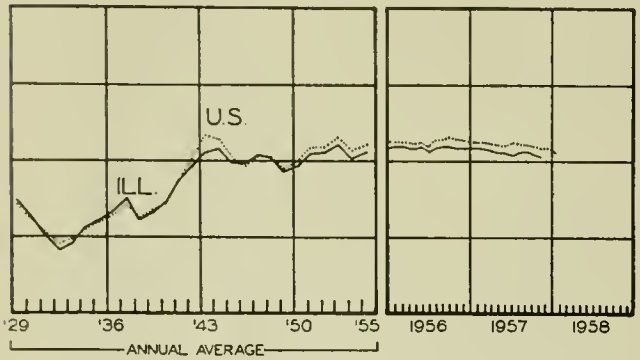
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for December, 1957. Comparisons relate to November, 1957, and December, 1956. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending January 10, 1958, and January 11, 1957.

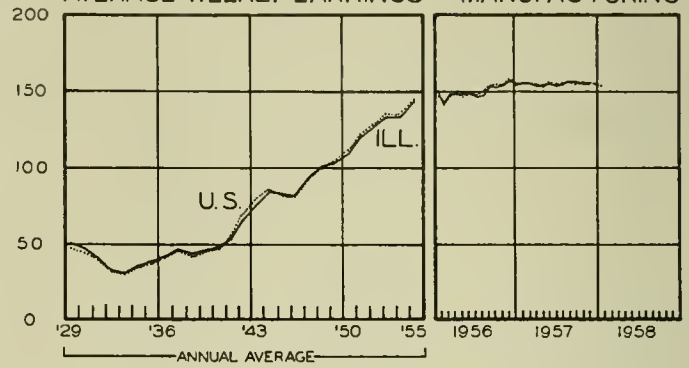
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

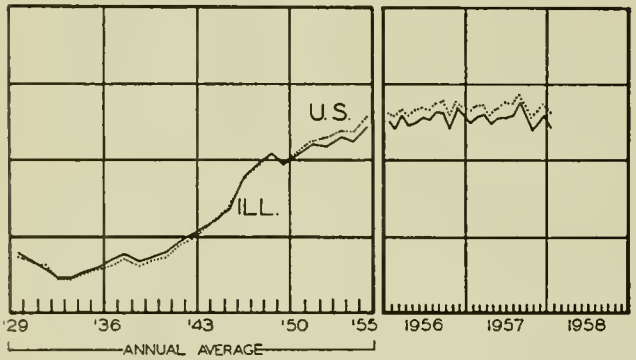
EMPLOYMENT MANUFACTURING



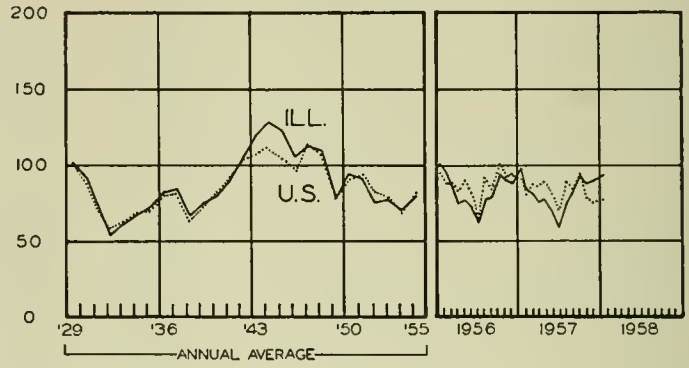
AVERAGE WEEKLY EARNINGS - MANUFACTURING



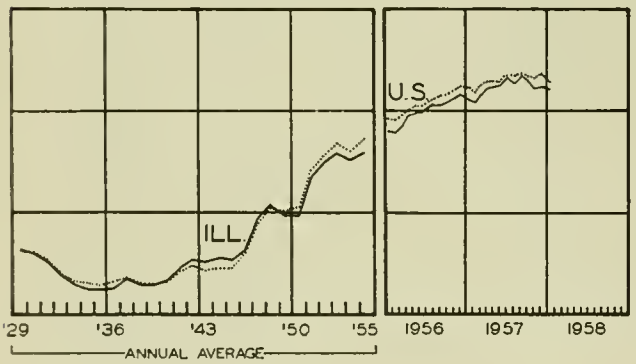
DEPARTMENT STORE SALES



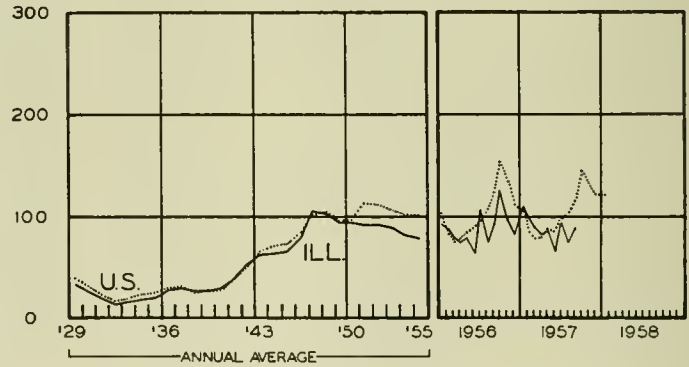
COAL PRODUCTION



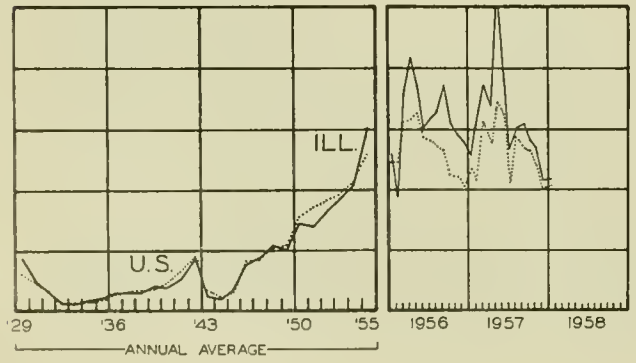
BUSINESS LOANS



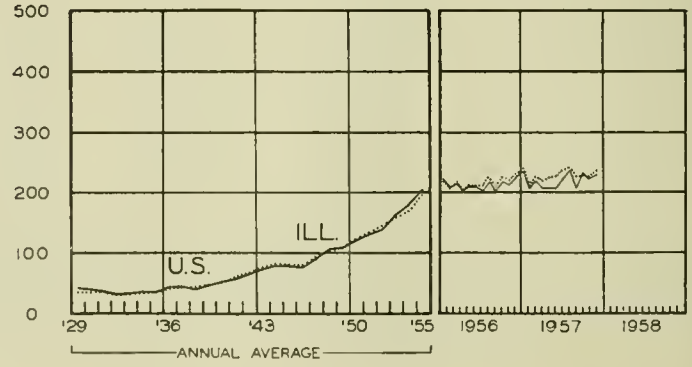
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

Economic activity continued to decline in March. Steel output averaged about 42 percent below March of last year. Production of automobiles was off 9 percent from February and 38 percent from the year-ago figure for the lowest March total since 1948. Coal and petroleum output fell far below the month last year. However, department store sales, after seasonal adjustment, ran about 5 percent above February and were only 6 percent below March, 1957.

Employment and Unemployment Rise

Unemployment, which seasonal forces alone should have reduced 250,000, rose about 25,000 in March, according to the Census survey. Insured unemployment, which recently has accounted for about 63 percent of the total, increased 155,000 between the survey week in February and the survey week in March despite the fact that the number of workers exhausting their benefit rights continued to exceed 100,000 a month.

On a seasonally adjusted basis, the Census total of unemployment amounted to 7 percent of the civilian labor force, compared with a rate of 6.7 percent in February.

Employment in March was estimated at 62.3 million, up 323,000 from a month earlier and only 2.5 percent below a year ago. Most of the increase came in farm employment; nonagricultural employment advanced by 80,000. On a seasonally adjusted basis, wage and salary workers in manufacturing fell 200,000, three-fourths of the decline coming in durable goods production. Employment dropped about 25,000 in mining, 45,000 in trade, 50,000 in transportation and public utilities, 30,000 in service and miscellaneous, and 10,000 in finance, insurance, and real estate. Government employment remained about the same. Only contract construction enjoyed an increase, rebounding 110,000 more than usual from the cold-weather low of February.

Construction Up

Outlays on new construction put in place rose seasonally in March, reaching almost $3.4 billion, $250 million above February and $60 million above March last year. Private construction at $2.4 billion was up 7 percent from the preceding month, while public construction was up 12 percent. The increase in the total over the year was entirely due to a $65 million rise in the public sector.

The principal gains over February in the private sector came in nonfarm residential building, farm construction, and public utilities expansion. The public sector saw its biggest advances in school construction, highway building, sewer and water systems, and conservation and development projects.

Price Indexes Climb Slowly

The consumer price index rose to 122.5 percent of the 1947-49 average in February, two-tenths of 1 percent above January and 3.2 percent above February, 1957. Among the components of the consumer price index, food experienced the biggest increase, particularly fruits and vegetables, which went up 2 percent, and meats, which rose almost as much. Both of these items had gone up substantially in the preceding month and both had increased sharply at the wholesale level in the same period. Storm damage reduced the supply of fruits and vegetables and rebuilding of drought-reduced herds lowered the number of cattle coming to market. Housing, medical care, and personal care rose slightly, but the advance of the last two slowed considerably. The decline in apparel prices and transportation costs which began in December continued in February.

The wholesale price index added a tenth of a percentage point in February, bringing it to 118.9 (1947-49 = 100), almost 2 percent above the year-ago figure. Higher prices for farm products and processed foods, particularly fruits, vegetables, and livestock, accounted for the rise in the wholesale price index. The average for all commodities other than farm products and foods dropped back to the October figure. Within this broad group, only three of the thirteen major industry classes rose during February. Five were below a year ago.

Business Sales and Inventories Down

On a seasonally adjusted basis, total manufacturing and trade sales declined $1.6 billion to $52.2 billion in February, while inventories were cut $700 million, bringing them to $89.3 billion. The unadjusted figures show sales down $4.5 billion and inventories off $600 million from their respective levels a year ago.

The biggest part of the drops in the month came in manufacturing (see p. 5). Retail sales fell $600 million and wholesale sales $200 million, almost all of the reduction coming in durables in both cases. Retail inventories were off $200 million from $24.5 billion in January, while wholesale inventories dropped from $12.6 billion to $12.5 billion. Again all of the cuts occurred in durables.

STOCKHOLDERS AND EXECUTIVE COMPENSATION · · By J. A. Livingston · · Page 8

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Recession Uncontrolled

In the course of a mere six months, economic attitudes and policies have changed drastically. The veering about of government policy reflects not only the reversal in business but the limitations of economic know-how.

The long postwar prosperity was not basically disturbed by variations in the rate of unemployment ranging between 3 and 6 percent. Now the rate has risen above 7 percent, and there is little doubt that it is time to get busy. Many remedies have been proposed. But proposed tax cuts have been countered by pronouncements that none are really needed; and proposals for increased expenditures have resulted only in some minor speed-up in procurement and public works programs. Essentially, the government forces are still marking time despite new highs in unemployment and other indications that there has been a definite change from earlier postwar conditions.

Indecision appears to arise primarily from two causes: The first is that all of the measures that might be used to counter the recession have objectionable features, which make them the subject of controversy. The second is wishful clinging to the hope that the problem will take care of itself. The hard fact is that the situation has continued to deteriorate. There is very little prospect that the decline will cease before the middle of 1959 — except, perhaps, for some brief respite provided by a transitory lessening of pressure for inventory liquidation.

Some Fallacies About Economic Control

There are now in circulation a number of fallacies about the efficacy of government action to halt the recession. Among them are:

1. *The government can and should do whatever is necessary to reverse the decline quickly and bring activity back up to full employment levels.* This is the most dangerous fallacy. Looking at the available controls in quantitative terms does not suggest that there is any such easy solution. The quantities involved in the collapse of the investment boom are much larger than any government action now contemplated. Following such a downturn, the major contractions have always been severe and long drawn out. Compensatory action on the scale now required might involve dangers of economic breakdown more serious than those posed by the current recession. The logical application of anti-recession measures aims at mitigating the cyclical swings, reducing the extreme fluctuations between peak and trough, but not at maintaining "maximum levels" regardless of the consequences for the social and political structure of the economy.

2. *A deficit automatically results in recovery and inflation.* Commonly overlooked is the fact that a deficit may have no immediate effect of this kind and may only result in additional stimulation and inflation at a later date when such effects are no longer wanted. A deficit per se tells little about the effects of government policy on the economy. If it grows merely because receipts from established taxes are falling, it cannot be a positive force for recovery. Its effects have already been built into the multiplier, and all it can do is help moderate the decline. If a deficit resulted from decreases both in taxes at given rates and in expenditures, with the former falling faster, the net short-term effect would be deflationary rather than inflationary. In any situation, the effects of a deficit may be analyzed only by considering the specific types of program and tax changes responsible for the difference between expenditures and revenues.

3. *A limited government stimulus — say, a spending program or tax cut of $5 billion — will result in a new upswing.* Actually, $5 billion is just $5 billion. A public works program of that amount serves as a substitute for approximately the same amount of private construction; if anything, the secondary and subsequent effects will be less because it cannot be regarded as a component of long-term growth. An equivalent tax cut would be bound to produce an even smaller offset, since not all the funds left with the taxpayers would be spent. Neither of these actions could compensate for the projected $7 billion decline in business capital outlays from last year's third quarter high to the corresponding period of this year.

4. *The economy behaves like an inefficient old pump.* If the pump is primed with a little water it becomes operative, suggesting that a temporary stimulus will turn the economy up. This analogy, however, is entirely inappropriate. The forces that move the economy do not become inefficient during a decline. Business is making its usual vigorous response to the conditions that have been experienced, and activity will not come back up again until the underlying difficulties are corrected. There is nothing in our knowledge of economic processes to suggest that a temporary stimulus can produce any enduring change in the level of activity; it might set in motion cyclical swings in the private sector, but even these would probably soon "damp out." This applies equally to a tax reduction with a definite time limit and to a temporary speed-up of expenditure programs for which the total outlay is fixed. To be effective in countering the recession, anything that is done should be done with a view to keeping it in effect as long as it may be needed.

5. *Maintaining the over-all level of purchasing power in the hands of the public will solve the problem.* This fallacious view persists despite an economic commonplace which emphasizes the importance of the gap between purchasing power and purchases; current receipts may be "hoarded" in various ways, for example, by being used for debt reduction. But even if income and purchases could be held stable at a high level, the result would not be stability in business investment at a high level. The latter requires growth in demand, not merely stability.

How Much Should the Government Do?

To prevent misunderstanding, it may be clearly stated at this point that these objections to current thinking on various points do not represent unwillingness to have the

(Continued on page 6)

BREWERIES—PAST AND PRESENT

The process of brewing is believed to be as old as man's knowledge of agriculture. Written references as well as pictures indicate that the ancient Chinese, Babylonians, and Egyptians brewed beer. But it was not produced commercially until about the sixteenth century.

The history of beer in America falls into two periods, the first beginning with the original settlers who brought their brewing methods and preferences intact from Europe. Crudely made beer had been known to the American Indian, but the first record of domestic brewing by early immigrants was in Virginia about 1587. The business of brewing in America did not begin until 1639 when the Massachusetts Bay Colony granted the first license to operate a brewery.

The second period began about 1840 when lager beer, developed in Germany, was introduced here; today it makes up 91 percent of total production. Lager beer requires a lower fermentation temperature than ale, porter, or stout. Developments in air-conditioning and refrigeration, both important in the production of lager beer, gave fresh impetus to production in the mid-1800's because they allowed brewers to operate independently of the weather.

The growth of the brewing industry was interrupted between 1920 and 1933 by legal prohibition; at that time many breweries converted to ice, candy, and other products.

The Industry Now

The brewing industry today sells more than $4 billion annually, produces $1.1 billion in value added by manufacture, buys farm products valued at $250 million, and contributes nearly $1 billion a year in taxes to national, state, and local governments. By 1957 the industry had recorded a 65 percent rise since 1939 in taxable shipments, from 52 million barrels to 86 million barrels.

The industry has moved steadily toward greater concentration. Today's typical brewery is larger than those of the thirties because of the absorption of smaller units by larger firms and the steady expansion of plant capacity. During the postwar years, 1947 through 1954, the twenty largest companies increased their share of the total value of shipments from 44 percent to 60 percent. Much of this shift resulted from the growing mortality rate among breweries which had begun operations after Repeal. The number of breweries operated dropped from 714 in 1934 to 465 in 1947 and to 264 in 1957.

There were 81,300 employees in the industry in 1954, with the typical plant hiring between 100 and 250 persons. Labor costs, however, comprised a relatively small share of production costs. In 1954 the industry payroll amounted to about one-third of the total value added by manufacture.

The Declining Role of Illinois

Brewing is an important industry in the Midwestern states. Its development here began with the introduction of lager beer by German brewers during the nineteenth century and it expanded with the subsequent growth in popularity of that type of brew. Seven Midwestern states, with Illinois at the hub, produced more than two-fifths of the nation's beer last year.

Although located between the Midwest's two largest brewing centers — Milwaukee and St. Louis — Illinois has never attained a major position in the industry. It ranked eighth nationally in total production in 1957, with 3.3 million barrels. However, the position of Illinois appears to be declining to a still lower position. The *Census of Manufactures* reveals that it lost ground between 1947 and 1954. Its establishments declined from 39 to 22 and value added by manufacture slumped from $57 million to $42 million. Employment by Illinois brewers dropped from 5,479 persons in 1947 to 3,678 in 1954. Despite this decline, the average Illinois plant hired about 170 persons in 1954, a 20 percent increase over 1947.

Illinois is important to the Midwest beer industry as a bottle supplier. The State's 11 bottle manufacturers in 1957 were easily the largest number in any Midwestern state; only Indiana challenged it, with nine.

There were more than 22,000 licensed retailers in Illinois last year. Nearly all were supplied by the State's 800 wholesale dealers in beer. All but 5 percent of these retailers offered both beer and distilled beverages to the public.

Trends and Problems

The postwar demand for beer has remained relatively constant, although per capita consumption has declined to 15.9 gallons from the high of 18.5 gallons in 1948. Per capita consumption during 1939 was 12.3 gallons. The problem of seasonal variation remains — beer drinking during the summer is usually twice that of winter.

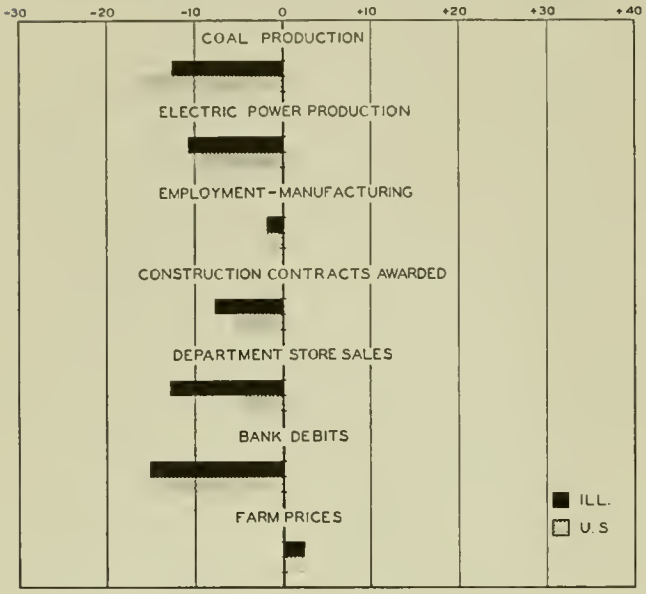
Several postwar trends are apparent, including (1) attempts at dispersion by larger brewers to regain distant markets lost as a result of wartime conditions, (2) the growth in home consumption spurred by the rise of supermarkets and package liquor stores, and (3) the surging popularity of the tin container. These changes, which cut sharply into the volume sold as draught and bottled beer, were also closely related to changes in marketing and living habits. Moreover, use of cans has given brewers advantages of easier handling and shipping owing to the lighter weight and smaller bulk and has reduced the problem of collection and cleaning. Beer volume shipped in cans rose 187 percent between 1947 and 1954, whereas that in bottles and barrels declined 9 and 23 percent, respectively. In addition, automation, shorter working hours, and the movement of the so-called "sweat" workers to the suburbs have contributed to the declines in draught beer.

Since Repeal, the brewing industry has also faced a number of stringent protective regulations which are state-administered and state-controlled and vary according to the requirements of each state. Difficulties in distribution and administration as well as changes in production techniques have been reflected in shifts in employment ratios. The proportion of nonproduction workers increased from 17 percent to 34 percent of total employees between 1935 and 1954.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1958, to February, 1958



ILLINOIS BUSINESS INDEXES

Item	February 1958 (1947-49 = 100)	Percentage change from Jan. 1958	Percentage change from Feb. 1957
Electric power[1]	208.1	−10.9	− 0.0
Coal production[2]	80.9	−12.8	− 5.4
Employment — manufacturing[3]	96.8	− 1.8	−10.3
Weekly earnings—manufacturing[3]	153.8[a]	− 1.2	− 0.9
Dept. store sales in Chicago[4]	111.0[b]	− 1.8	− 7.5
Consumer prices in Chicago[5]	126.2	+ 0.1	+ 3.9
Construction contracts awarded[6]	201.6	− 7.8	−33.9
Bank debits[7]	161.8	−14.9	+ 0.8
Farm prices[8]	85.0	+ 2.4	+ 7.6
Life insurance sales (ordinary)[9]	243.3	− 6.0	− 2.0
Petroleum production[10]	120.5	−10.5	+ 7.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] January data; comparisons relate to December, 1957, and January, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	February 1958	Percentage change from Jan. 1958	Percentage change from Feb. 1957
	Annual rate in billion $		
Personal income[1]	341.8[a]	− 0.5	+ 1.0
Manufacturing[1]			
Sales	306.0[a]	− 3.0	− 6.2
Inventories	52.5[a, b]	− 0.8	+ 1.4
New construction activity[1]			
Private residential	12.8	− 5.8	+ 2.1
Private nonresidential	14.4	− 2.9	+ 1.2
Total public	9.8	−10.0	+ 4.4
Foreign trade[1]			
Merchandise exports	18.1[c]	− 7.8	−10.1
Merchandise imports	13.1[c]	− 4.0	− 1.8
Excess of exports	5.0[c]	−16.5	−26.5
Consumer credit outstanding[2]			
Total credit	43.0[b]	− 2.1	+ 6.2
Installment credit	33.3[b]	− 1.3	+ 6.6
Business loans[2]	30.4[b]	− 0.6	+ 0.4
Cash farm income[3]	32.5[c]	− 7.7	+ 5.3
	Indexes (1947-49 = 100)		
Industrial production[2]			
Combined index	130[a]	− 2.3	−11.0
Durable manufactures	131[a]	− 2.2	−10.9
Nondurable manufactures	125[a]	− 0.8	− 4.6
Minerals	119[a]	− 1.7	− 9.8
Manufacturing employment[4]			
Production workers	96	− 2.5	−10.2
Factory worker earnings[4]			
Average hours worked	96	− 0.3	− 4.2
Average hourly earnings	158	0.0	+ 2.4
Average weekly earnings	153	− 0.3	− 1.9
Construction contracts awarded[5]	197	− 5.5	− 9.6
Department store sales[2]	124[a]	− 4.6	− 8.8
Consumer price index[4]	122	+ 0.2	+ 3.2
Wholesale prices[4]			
All commodities	119	+ 0.1	+ 1.6
Farm products	96	+ 2.0	+ 7.5
Foods	109	+ 0.2	+ 4.9
Other	126	− 0.3	+ 0.2
Farm prices[3]			
Received by farmers	93	+ 2.2	+ 8.1
Paid by farmers	121	+ 0.8	+ 2.5
Parity ratio	83[d]	+ 1.2	+ 3.8

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for January, 1958; comparisons relate to December, 1957, and January, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Mar. 29	Mar. 22	Mar. 15	Mar. 8	Mar. 1	Mar. 30
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,202	1,240	1,273	1,350	1,385	1,765
Electric power by utilities...mil. of kw-hr	11,645	11,756	11,860	11,793	11,803	11,694
Motor vehicles (Wards)...number in thous.	112	96	103	101	109	153
Petroleum (daily avg.)...thous. bbl.	6,264	6,263	6,257	6,328	6,841	7,786
Steel...1947-49 = 100	79	82	85	83	86	137
Freight carloadings...thous. of cars	532	533	539	544	554	695
Department store sales...1947-49 = 100	114	109	106	105	100	112
Commodity prices, wholesale:						
All commodities...1947-49 = 100	119.8	119.6	119.5	119.4	119.2	116.9[a]
Other than farm products and foods...1947-49 = 100	125.9	125.9	125.9	125.8	125.8	125.4[a]
22 commodities...1947-49 = 100	85.5	85.5	85.4	85.6	85.7	88.6
Finance:						
Business loans...mil. of dol.	31,010	31,041	30,372	30,241	30,448	31,443
Failures, industrial and commercial...number	327	357	336	358	331	290

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1957.

RECENT ECONOMIC CHANGES

Consumer Attitudes

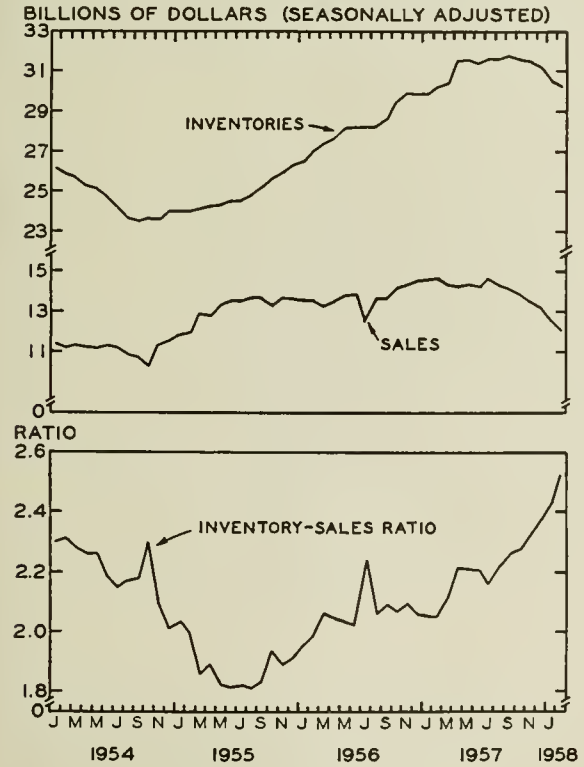
Preliminary findings of the annual Federal Reserve Survey of Consumer Finances indicate that, on the basis of a less favorable view of their own financial position and pessimism about the general business outlook, consumers plan to make substantial cuts in major expenditures for durable goods during 1958. In reporting their views about their present financial situation, only about one-third of all spending units said they were better off than a year ago; an equal proportion thought they were worse off. By comparison, in the preceding two years the percentages of spending units who considered themselves either better or worse off were 40 and 23, respectively, whereas the proportions in two earlier recession years, 1949 and 1954, were very similar to this year's.

Reflecting the decline in wage and salary income in recent months, the proportion of consumers who reported lower rates of income this year rose to 26 percent, the largest proportion reporting an income decline for any survey in recent years. At the same time, the proportion reporting increased earnings over a year ago dropped to about 36 percent, the lowest percentage since 1950.

On consumer purchases, the FRB reported the percentage of consumers planning to buy new automobiles was 6.6, substantially below the 8.5 percent last year and the lowest since 1951. Planned purchases of new and existing homes were also less frequent than in most recent years. Those planning to buy new homes fell from 8.7 percent in the 1957 survey to 7.1 percent this year.

The Department of Commerce data on personal income showed another reduction in February, falling $1.8 billion below the annual rate of the two preceding months and $5.5 billion below the record rate of $347.3 billion recorded in August of last year. Income to individuals from all sources in February accrued at a seasonally adjusted annual rate of $341.8 billion. Practically all of the decline in the rate from January to February was centered in wages and salaries, which were also below their year-ago rate.

SALES AND INVENTORIES OF DURABLE GOODS MANUFACTURERS



Source: U. S. Department of Commerce.

Manufacturers' Sales and Inventories

Manufacturers' inventories fell further in February and stood at $52.5 billion at the end of the month, $400 million below the January level. However, sales continued to decline at an even faster rate, sliding from $26.3 billion in the first month of the year to $25.6 billion in February. As a result, the inventory-sales ratio for all manufacturers' goods climbed to 2.05.

Most of the decline in both sales and inventories was centered in the durable goods manufacturing industries. As shown in the accompanying chart, durable goods inventories have been falling since last October, and by the end of February had dropped about 5 percent. The latest monthly decrease left durable goods inventories at $30.2 billion in February.

The chart also shows, however, that manufacturers' sales of durable goods have been falling for a longer period than inventories. Since February of last year the movement of sales has been steadily downward, and over the subsequent twelve-month period they decreased by about 19 percent. As a result, even after five months of continuous cutbacks, manufacturers' inventories of durable goods were higher in relation to sales at the end of February than at any time in either the 1948-49 or the 1953-54 recession. The inventory-sales ratio, at about 2.50, was also higher than it was in October before inventories began to be trimmed. Normally, durable inventories are about equal to, or somewhat less than, two months' sales. In the three preceding years, 1955-57, the ratio for February has been 2.00, 1.98, and 2.05, respectively.

Construction Contracts

Contracts for future construction in the United States amounted to slightly less than $2 billion in February. According to the F. W. Dodge Corporation, this figure was 10 percent below the figure for the same month last year. February was thus the second consecutive month in which contracts registered a 10 percent decline from year-ago levels.

The dollar value of residential building contracts, totaling $727 million, was down 17 percent from the February, 1957, figure. Although apartment units registered an increase of about 2 percent, the number of one- and two-family housing units fell sharply. The physical volume of new dwelling units of all types amounted to 59,172, a drop of 14 percent from last year's February volume.

Nonresidential building contracts fell 8 percent in February to $751 million. The decline was due primarily to decreases in contracts for manufacturing and commercial buildings which more than offset a 2 percent increase in educational and science buildings.

Sharp gains in public works contracts, especially for streets and highways and sewerage systems, boosted the value of heavy engineering contracts in February to $475 million, 2 percent higher than the same month last year.

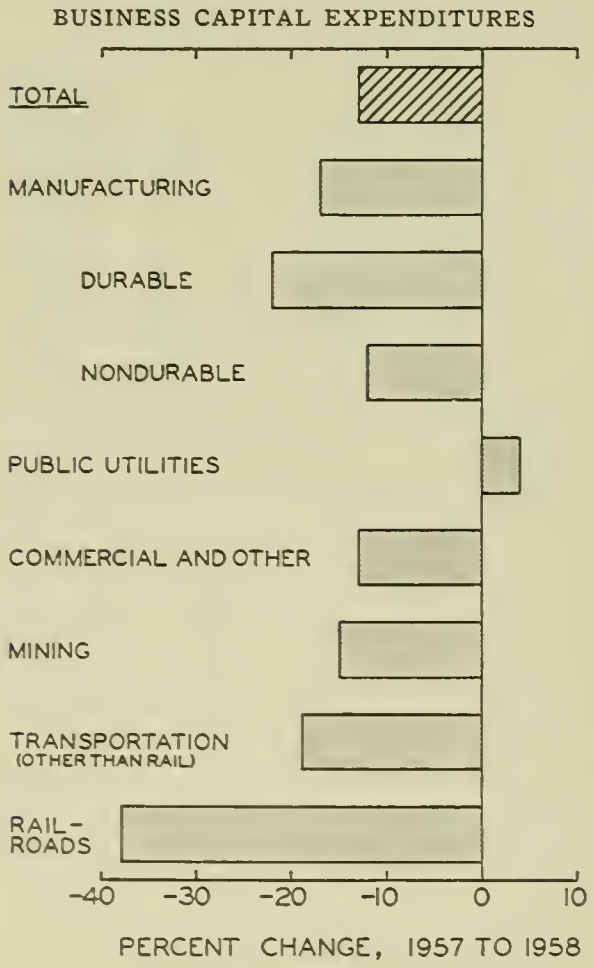
The total value of contracts for the first two months of 1958 amounted to slightly more than $4 billion, down 10 percent from the same period of 1957.

Business Capital Expenditures

Businessmen plan to spend about $5 billion less on new plant and equipment in 1958 than they spent last year. According to a joint survey conducted by the Securities and Exchange Commission and the Department of Commerce, total expenditures are expected to reach $32 billion this year, a reduction of about 13 percent from the actual outlay of nearly $37 billion in 1957. Thus, the recent boom in capital investment, which brought a 40 percent increase in spending from 1954 to 1957, has ended. As indicated in the accompanying chart, the drop in capital spending is heaviest in the durable goods industries and railroads.

The joint report reduced the earlier estimate for fourth quarter 1957 expenditures from an annual rate of $37.5 billion to $36.2 billion and, at the same time, revised the first quarter 1958 estimate downward to $34.0 billion. For the second quarter, capital outlays are expected to dip to an annual rate of $32.5 billion. Second quarter 1957 spending hit a rate of $37.0 billion. Thus, with first half expenditures for plant and equipment projected at a rate higher than the anticipated total of $32 billion for the full year, the annual rate of business outlays in the second half of 1958 is expected to fall still lower than the estimated second quarter rate.

The final figure for 1957, $37.0 billion, was 5 percent greater than the 1956 level but was below the 6.5 percent increase projected by businessmen for 1957 in last year's survey. The greatest divergence between anticipated and realized expenditures, 5 percent, was experienced by durable goods producers and railroads.



Source: Securities and Exchange Commission.

Recession Uncontrolled

(Continued from page 2)

government take action on the economic front. The government can do much, incurring substantial deficits if necessary, and it should use its powers as effectively as possible to minimize depression difficulties and to promote recovery. This generally accepted view, which was incorporated in the Employment Act of 1946, is founded upon international as well as domestic considerations.

Agreement on these principles does not mean, however, that efforts to reduce unemployment and promote recovery can or should be expanded without limit. To attempt unrestricted compensatory action would merely endanger the system with another kind of instability.

Even if a more effective system of controls had already been established, situations might still be encountered from time to time in which the controls proved inadequate. To fall back on an electrical analogy, the economy may be regarded as placing a highly variable demand on the government power house. At times the capacity of the generators may be exceeded. The government then finds itself in the predicament of being unable to "pick up the load." The only way to avoid futility in endless attempts to re-set the circuit breakers is to restrict the demand. By cutting off part of the load, limiting it to capacity, power can be rationed and utilized effectively for the best advantage of the system as a whole.

In the major contractions following great postwar booms, precisely such a situation develops. Although it may be unfortunate that the recession cannot then be quickly ended, it is no council of despair to suggest that the government should observe appropriate limits on the use of its countercyclical powers. The cyclical forces will work in later phases for recovery as well as they now do for recession. In the course of time they would bring about a resumption of growth even without government action. Since the time would be too long and the depression too deep, the government should act. But its action should neither inhibit the natural forces of recovery nor engender a kind of recovery that cannot be sustained.

To use control mechanisms violently will not necessarily result in control but may set up oscillations that are completely destructive of stability. It is not difficult to illustrate this point by setting up models of the multiplier-accelerator type. If compensatory government action is assumed to fill in for declines in private investment with a lag of two calendar quarters, any kind of cyclical misbehavior can result. Explosive cycles can readily be portrayed by relatively moderate adjustments of the postulated coefficients. An oscillatory system of this kind can be stabilized only by looking ahead, by anticipating and compensating the fluctuations in the private economy as they occur. If the oscillations should, on even a single occasion, run to the extremes of all-out inflation and deep depression, the misguided attempts at stabilization would tend to discredit valid controls that could in less extraordinary circumstances be made to work effectively.

It is in approaching the peak of prosperity that control must eventually be established. After all forms of private investment have progressed far beyond the needs of growth, it is too late. Although government may subsequently act in a substantial way to counter the decline, early recovery cannot be expected. The resumption of stable growth must wait until the excesses are liquidated. To avoid uncontrolled recessions like the present, the government, though playing a role of substantial magnitude, must be patient with partial results, until a point is reached at which control can be established. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Public Employment

Public employment in the United States totaled slightly over 8 million persons in April, 1957. This figure, just reported by the Bureau of the Census, includes all Federal civilian employees and all persons employed by the 48 state governments and the more than 100,000 units of local government in the nation.

Five major divisions of governmental activity account for more than two-thirds of the national public employment. Education alone accounted for 30 percent of all public employment; national defense was next in importance with 16 percent. Postal service, highways, and health and hospitals together engage more than 20 percent. The remaining 34 percent is distributed among twelve divisions with only one, general control, accounting for as much as 5 percent.

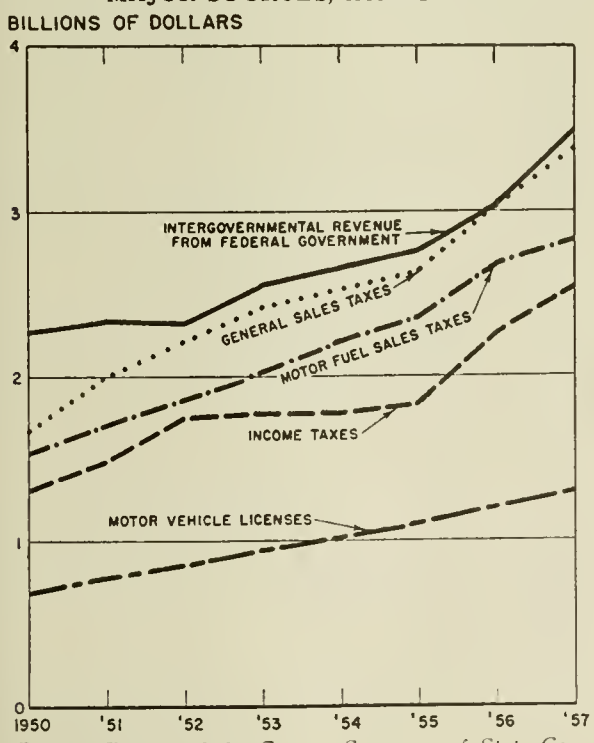
Of these five leading functions of government, only health and hospitals involve a significant proportion of employees on all three levels of government. National defense and postal service are exclusively Federal, and education and highways are predominantly state and local functions.

State Government Revenue

In fiscal 1957, the general revenues of the 48 states totaled $20.4 billion, an increase of 10.8 percent from 1956. Of this amount, taxes provided $14.5 billion or about 70 percent.

State tax revenue in 1957 rose 8.6 percent from the year before and amounted to $6.6 billion more than the 1950 figure of $7.9 billion. The general and selective sales and gross receipts taxes together reached $8.4 billion, or almost 60 percent of the total state revenue. The general sales and gross receipts taxes amounted to $3.4 billion, an increase of 11 percent from 1956. This tax, though not used by fifteen states, still represents 23 percent of total state tax yields for 1957. Individual income taxes effective in 31 states rose 14 percent to a record high of $1.6 billion. Corporate net income taxes rose 10 percent above the 1956 figure. Motor vehicle license taxes, except those measured by gross receipts, net income, or assessed valuation, produced $1.3 billion, or 8 percent more than a year ago (see chart).

STATE GENERAL REVENUE FROM SELECTED MAJOR SOURCES, 1950 TO 1957



Source: Bureau of the Census, *Summary of State Government Finances in 1957.*

Intergovernmental revenue from the Federal government increased from $3.3 billion in 1956 to $3.9 billion in 1957. This increase was due primarily to larger Federal grants for highways, public assistance, and education. Charges and miscellaneous general revenue amounted to $1.9 billion, an increase of 12 percent from 1956.

Easy Planting

The Minnesota Mining and Manufacturing Company of St. Paul, Minnesota, has introduced a new method of starting a lawn. The select grass seeds are embedded in a cellulose fiber mat that is unrolled on the prepared soil. This mat, which has a greenish color to make it blend with the sprouting grass, provides optimum seed spacing and also helps to keep the soil from being washed away. Within a couple of months the mat dissolves as a result of bacteriological action. The mats are reported to cost approximately 10 cents to 15 cents a square yard, depending on the quantity ordered.

A flower garden called "Seed-Rolz" that comes in a roll is the product of D. L. Vaughn and Associates of St. Petersburg, Florida. The "Seed-Rolz" garden is so arranged that it can simply be unrolled on a prepared flower bed and watered in the usual manner. The seeds are embedded in material that prevents the seeds from washing or blowing away. It is reported that the material holding the seeds finally disintegrates and fertilizes the soil.

Marital Status

A recent survey taken by the Bureau of the Census throws light on the relationship between marital status and economic or social position. It was found that 98 percent of nonfarm men between 35 and 64 years of age with incomes of $6,000 or more were either married or had been married. On the other hand, only 82 percent of those with incomes under $2,000 had ever been married. More frequently also, men with larger incomes remained married or remarried after a broken marriage. The data indicated that the proportion of the married tends to be higher among nonfarm men in professional, managerial and proprietary, sales, and craftsmen groups than among the clerical, operative, service, and laborer groups.

Similarly, of those nonfarm men with high school or college training, a greater proportion were married than was the case among those who never attended high school. The largest proportion of single, widowed, or divorced were men with less than eight years of schooling. Among college graduates a large proportion were single, but this group had the lowest proportion of widowed or divorced. The rates of broken marriages were especially low for men in the middle-aged group who are college graduates, in professional occupations, and in the upper income brackets.

STOCKHOLDERS AND EXECUTIVE COMPENSATION*

J. A. LIVINGSTON

"Charity has no business to sit at boards of directors." In those crisp words, a British court in 1883 determined that a railroad, in liquidation, could not grant severance pay to workers who had lost jobs. A corporation is a business enterprise, reasoned the courts. Its funds are to be used for the benefit of shareholders, not frittered away on charitable impulse. And that was the law not only in Britain but in the United States well into the twentieth century. But no longer.

In 1953, a New Jersey court decided that the A. P. Smith Manufacturing Company could contribute $1,500 to Princeton University — with no strings attached. The giver did not have to establish that the gift would help stockholders by advancing the affairs of the corporation. The court considered it proper for directors to use corporate assets for educational welfare, for national welfare.

This satisfied social mores. Corporate giving is a mid-twentieth century commonplace. Hundreds of companies make gifts to educational institutions, hospitals, and so on. Charity has become an accepted business expense — in the corporation's self-interest.

Erosion of Stockholder Status

This change in the attitude of the courts and corporation officers toward charity marks an erosion in stockholder status. The shareholder gets the last bite on the apple core. Executives in administering the affairs of the company look to the perpetuation of the corporation as an institution.

And the corporation has an identity distinct from its owners. I can offer no stronger evidence than Peter Drucker's book *Concept of the Corporation*. Drucker served as a consultant to General Motors for several years. For his book, he used GM as the very model of a modern major corporation. Yet the word "dividend" is not in the index. Nor is the word "stockholder." But you will find "worker," "taxation," "consumer." Worry about the shareholder? Hardly. The problem is how much to let the union have, how much to keep for the corporation. This is no criticism of Drucker. He is defining, analyzing, characterizing the corporation as he found it.

Where does that leave the shareholder? Frank W. Abrams, former chairman of Standard Oil (New Jersey), says corporations can "achieve their greatest social usefulness . . . when management succeeds in finding harmonious balance among the claims of the stockholders, employees, customers, and public at large. But management's responsibility in the broadest sense . . . [is to be] a good citizen."

A good citizen! The corporation now has a new identity apart from profit making. It is Good Citizen, Inc.! And the executive comports himself to reflect that corporate citizenship. He wears his church clothes every day, not just on Sundays. He represents not himself, not the stockholders, but the corporation.

Corporation versus Stockholder

The shareholder is the residuary beneficiary of Good Citizens, Inc., and this gives rise to two-toned executive morality — one set of morals with which to greet the outside world, and another with which to treat shareholders. After all, shareholders are transitory.

Stockholders in the large, successful corporation are like poor relatives: They are seldom in a position to correct management, nor do they have any compulsive reason to — unless they are dedicated men like Lewis D. Gilbert, or contenders for power like the late Robert R. Young or Louis E. Wolfson. These men are large stockholders as a means to the end of becoming managers.

For stockholders, dividends are sufficient. And so managements see nothing incongruous in treating their shareholders like poor relations, using dividends as stockholder tranquilizers and keeping for themselves the emoluments of power.

Although corporation executives are often criticized, they also have the power to dispel criticism, to symbolize themselves as paragons of thoughtfulness and Good Citizenship. When large companies dispense wads of cash to universities, the presidents and professors at those universities are well disposed toward corporations. Such benevolence is self-serving. Criticism is dulled and gratitude whetted by the lively expectation of further favors.

The incapacity of stockholders to correct and restrain corporation executives has become a grant of excess freedom. Executives are an overprivileged class in a democratic society. Their power to overpay themselves, with legal sanction, could, if unchecked, erode the very structure on which they and their corporations depend for survival. The Good Citizen, whom so many young men and women want to emulate, could become the Bad Example. Spread over time, self-gorgement by executives could become epidemic and proliferate into social decadence. Corporate power could become synonymous with grab-bag morality.

The Irrationale of Executive Compensation

Business Week magazine, in analyzing 1956 executive compensation as reported to the Securities and Exchange Commission, noted that there were 23 jobs which paid more than $300,000 in cash. Prior to the New Deal, the compensation of executives was a deep secret. When the "numbers" first were made public by Congress, executives resented the intrusion on their privacy. Now, it has become something of a game — who is tops? SEC reports on remuneration constitute an informal ranking.

A few corporation officials eschew this numbers game. Thomas B. McCabe, of Scott Paper, draws no salary. Louis E. Wolfson, of Merritt-Chapman and Scott, limits his, as does Juan Trippe, of Pan American World Airways. But these are the exceptions whose satisfactions take other forms.

Corporation executives, uninhibited by stockholder yeses and noes, festoon themselves with post-retirement consulting contracts — so they get paid five to ten years beyond the 65-year limit. Such special benefactions are amplified by stock options, which give executives a call on the stock — in case the business prospers. All that, and pension plans, too!

This is the twentieth century way of "battening down" one's future. The well-trod avenue to an "old age competence" is control of other people's money, of a corporation, and compensating yourself in the manner your

* This article is based upon the last chapter of *The American Stockholder*, by J. A. Livingston, Copyright © 1958 by J. A. Livingston, published by J. B. Lippincott Company. Mr. Livingston is financial editor of the *Philadelphia Bulletin* and writer of the syndicated column "The Business Outlook."

industrial peers consider proper. In this, it seems to me, social morals are infringed. The very men who benefit from this system can damage it, perhaps destroy it, through greed. An outside conscience — with power to persuade — is required. Disclosure is not enough. Exhibitionism, "I'm tops," whets cupidity instead of sensitivity to public opinion.

A Tax-Sheltered Elite

Executives have contrived themselves into a tax-protected elite. The ordinary workers cannot escape the impact of the tax laws; most of them could not escape even by dishonesty, by outright evasion. But the businessman has been able, with the help of lawyers and accountants, to contrive a tax shelter. By deferring his compensation — by charging his services to latter-day stockholders and consumers — he gets pay for past services when his income tax bracket drops. He does this by making a contract with his company. This is tantamount to making a contract with himself.

Why should the executive, by using a self-made consulting contract, be able to shelter himself in his retirement years with what amounts to a tax subsidy?

In the same dubious category are stock options. If the ordinary Joe Blow wants to build up a capital-gains fortune, he has to take a risk. He buys stocks or real estate with his own or borrowed money. If prices drop, he takes a loss. Because of the danger of loss, of the risk, Congress excepted such gains from the regular income tax schedule. Now our canny executives use the exception to apply to their "regular" pay. They grant themselves options to buy shares at 95 percent of the market value; they make sure they do not sell the shares within two years from the granting of the option; they also make sure that once they have bought the stock they hold it for more than six months. Then, whatever profit accrues is subject to the capital gains rate of 25 percent rather than progressive taxation, which rises to 91 percent.

Another device of this kind is the expense account. Its use has progressed to such an extent that the Treasury is taking steps to bring it under control. It may represent income received and consumed but taxable neither to the executive nor to the corporation.

Executives justify such tax devices by saying that they cannot get along on a straight salary. Taxes eat up too much. Consequently, it has become customary in many corporate proxy statements to show shareholders just how tax-ridden executives are.

In a society in which the graduated income tax is law, the Good Citizen, the corporation executive, sets a poor example by violating the democracy written into the income tax laws — that is, taxation according to capacity to pay. That there is full disclosure is neither a mitigation nor an amelioration. A practice of getting all that is gettable, of "beating the revenooer," ill becomes the Corporate Good Citizen. Leaders of a society hold the structure together by the standards they themselves set.

Government Immobilized

This wool-lining of executive futures is against the national interest. President Eisenhower tried for months to find a replacement for Charles E. Wilson as Secretary of Defense. The post was offered to a number of industrialists. Several bankers refused to take the position of Deputy Secretary of the Treasury vacated by W. Randolph Burgess. Why?

Private industry has too much to offer. To take the $25,000 job as Secretary of Defense — one of the strategic positions in the United States and the world — Wilson gave up a better-than-$500,000-a-year post at General Motors. He took a pay cut of more than 95 percent and had to sell his GM stock. Neil McElroy succeeded Wilson at a 90 percent voluntary pay cut. At Procter and Gamble he got over $300,000. Wilson or McElroy will get along. But the United States may not, which is my deep concern.

What a contrast with Soviet Russia! There, the bigger the political job, the greater the compensation, the greater the emoluments. The islands of strategic power in the Soviet system are political, educational, and artistic. In contrast, in the United States, it is the exceptional top industrialist who does not fare better than the President of the United States, and surely better than the Vice-President.

The report of the Defense Advisory Committee, headed by Ralph J. Cordiner, president of General Electric Company, noted that the Department of Defense cannot match the starting pay of large corporations in the competition for young college graduates. President Eisenhower acknowledged this by saying that a young executive who goes from business into government "practically ruins his business career and his future." Such a distortion in economic incentive only businessmen, themselves, can correct.

In a young country, in a country of infant industries, great rewards for long hours and intensive labor commend themselves. But is such high incentive pay necessary today? Our system of rewards, through stock options and deferred compensation, not only creates an opulence which the corporation executive has to prove he still deserves, but also threatens the over-all management and protection of our system — the government itself.

Raising government salaries will not solve the problem. As long as the corporate executive can tax-hatten his income, the government cannot compete. The only recourse is to force conscientious executives to revalue their own services — to examine what high pay is doing to government, to the political management of the system on which they depend. In a country such as ours, we need competent members of the cabinet, military men, administrators. We need men who are as brilliantly trained as their Soviet counterparts, where rewards are directed to obtain the best men at the top of the national structure and not, as in ours, where they tend to siphon the best away from government and into industry.

If the average stockholder took an active part in the affairs of corporations, if he understood the niceties of compensation, he might be able to impose restraint upon executives. But he has neither the knowledge, the time, nor the interest. His primary concern is dividends.

In his interesting pamphlet, "Economic Power and the Free Society," A. A. Berle, Jr., makes the point that in medieval times, the men of learning and the church — the "lords spiritual" — could rebuke the lords temporal and suggest that they mend their ways. "In theory," suggests Berle, "the stockholders can act as the 'lords spiritual' through their vote."

But the institutional investors, the very large stockholders — the investment trusts, insurance companies, banks, investment bankers, and pension funds — who could act as the "lords spiritual" are unwilling to assume guardianship of the corporate conscience. They rarely fight to correct the ways of management. When dissatisfied, they sell their stock, they retire. And so there is a gap in our society. No outside conscience, no strong moral power enforces accountability on management, restrains management from eroding the very system on which managerial prerogatives and power depend.

LOCAL ILLINOIS DEVELOPMENTS

Sharp declines were recorded by several of the major indexes of Illinois business activity during February. Bank debits dropped 15 percent, coal production 13 percent, electric power 11 percent, petroleum production 10 percent, and construction contract awards 8 percent from the previous month.

Year-ago comparisons showed a decline of 34 percent in construction contract awards and 10 percent in manufacturing employment, in contrast to 8 percent gains in farm prices and petroleum production.

Sales and Use Tax Revenues

The Illinois State Revenue Department reported that a total of $306.8 million was collected in sales and use taxes in 1957. Of this amount $18.1 million came from use tax collections. As compared with 1956, the total sales and use tax revenues increased 6 percent, while use tax receipts alone increased 62 percent.

The major sources of revenue from the tax were food stores, general merchandise stores, automotive dealers, and eating and drinking establishments. The food group accounted for $67.6 million or about 22.0 percent of the total sales and use tax collections, general merchandise stores for 11.9 percent, automotive dealers for 11.5 percent, and eating and drinking establishments for 10.8 percent. In addition to the retail establishments, wholesalers and jobbers collected $20.6 million and manufacturers and producers collected $25.3 million, together accounting for 14.9 percent of total collections.

Nonagricultural Employment

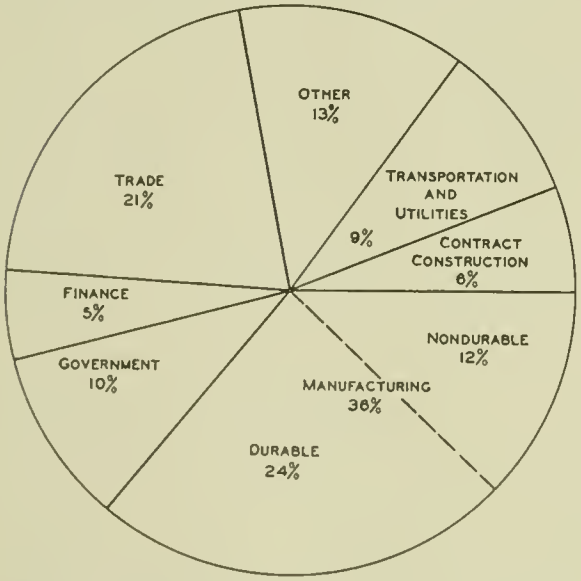
Total nonagricultural employment in Illinois averaged slightly under 3.5 million in 1957, somewhat lower than the previously established high recorded in 1956.

Employment in contract construction experienced the greatest change of any major sector, with an increase of 7 percent from 1956. Increases of 2.5 percent, 2.1 percent, and 1.9 percent were recorded for employment in government, finance, and service industries respectively. Employment in manufacturing industries decreased 2.5 percent, slightly more than offsetting the increases in the previously mentioned industries, which together accounted for 33 percent of total employment.

Even though employment declined in 1957, there was no substantial change in the percentage distribution of employment. Contract construction, which accounted for 5 percent of total employment in 1956, increased to 6 percent in 1957, and manufacturing employment dropped from 37 percent in 1956 to 36 percent in 1957. Durable goods manufacturing was responsible for this 1 percent decline. The shares of all other sectors of employment remained unchanged from the 1956 distribution.

The accompanying chart indicates the distribution of nonagricultural employment in the major sectors of the Illinois economy. Manufacturing, trade, and government account for two-thirds of total employment in Illinois. Service and miscellaneous industries and mining and petroleum production are the major sectors classified as "other." Mining and petroleum made up only 1 percent of total employment.

NONAGRICULTURAL EMPLOYMENT, 1957



Source: Illinois State Employment Service and Division of Unemployment.

Contract Awards

Data based on tabulations of manufacturing plant construction contract awards as reported by *Engineering News-Record* indicates that the Chicago metropolitan area still continues to lead all other metropolitan areas of the nation. This is true both in number and in value of contract awards for new manufacturing facilities for the year 1957 and for the five-year period ending December 31, 1957.

During the five-year period, 186 plant contracts, valued at $868 million, were awarded in the Chicago area. The Cleveland area with $322 million was second in value. In 1957, there were 48 contract awards valued at $185 million in the Chicago area. Houston was second in value with $67 million.

Plant construction contract awards in the Chicago area were spread over a number of industries, with the highest values concentrated in primary metals, petroleum and coal, machinery (except electrical), fabricated metals, and chemicals. These industries accounted for 82 percent of the total value of plant construction contract awards.

Planned Spending

Several million dollars of Federal, state, and local spending for flood control-navigation and airport development programs in Illinois is already planned. The Kaskaskia Valley Water Development Program, which calls for a dam and reservoir at Carlyle and a dam at Shelbyville, is the largest project scheduled. To be started this October, it is scheduled for completion within six years. The estimated cost is more than $70 million, approximately $60 million coming from Federal funds and the remainder from state and local government appropriations. About 2,000 men will be employed at the peak of construction within two or three years.

The Civil Aeronautics Administration in Washington has announced matched fund grants of $109,000 for an airport in the Carbondale-Murphysboro area, $59,000 for a Williamson County airport, and $46,500 for a Sparta community airport. The grants cover 50 percent of the planned construction cost. Construction at all three airports is planned to begin in July. In addition, more than $300,000 will be spent in Federal, state, and local funds as part of an airport improvement program at Mount Vernon.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1958

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$24,107[a]	1,145,849[a]	$536,637[a]		$14,144[a]	$13,457[a]
Percentage change from	Jan., 1958	+5.4	−1.4	−24.0	−13	−14.9	−4.4
	Feb., 1957	−41.6	−2.7	−2.4	−9	+0.8	−3.6
NORTHERN ILLINOIS							
Chicago		$18,426	862,503	$405,152		$12,982	$11,640
Percentage change from	Jan., 1958	+20.4	−1.3	−22.3	−13	−14.8	−1.5
	Feb., 1957	−44.7	−4.2	+0.1	−8	+1.2	−4.3
Aurora		$ 213	n.a.	$ 7,556		$ 55	$ 144
Percentage change from	Jan., 1958	−64.3		−26.9	+4	−22.6	−2.9
	Feb., 1957	−83.0		−8.8	−2	−2.2	−1.2
Elgin		$ 183	n.a.	$ 5,393		$ 38	$ 91
Percentage change from	Jan., 1958	+120.5		−30.9	−7	−11.9	−18.5
	Feb., 1957	+15.8		−3.9	−13	+3.4	+2.6
Joliet		$ 779	n.a.	$ 9,516		$ 68	$ 98
Percentage change from	Jan., 1958	+70.5		−29.0	−17	−15.2	−21.5
	Feb., 1957	−45.1		−18.5	−11	−4.4	+25.6
Kankakee		$ 140	n.a.	$ 4,272		n.a.	$ 52
Percentage change from	Jan., 1958	+29.6		−39.0	n.a.		−6.6
	Feb., 1957	+2.2		−6.7			+9.0
Rock Island-Moline		$ 848	26,802	$10,302		$ 89[b]	$ 140
Percentage change from	Jan., 1958	+93.6	+0.9	−21.0	n.a.	−15.4	−35.1
	Feb., 1957	+94.5	+13.3	+15.7		+3.8	−11.1
Rockford		$ 433	46,684[c]	$16,427		$ 153	$ 200
Percentage change from	Jan., 1958	−42.4	−3.6	−26.0	+4	−16.4	−25.3
	Feb., 1957	−41.6	+0.9	−12.0	−10	−7.4	−12.9
CENTRAL ILLINOIS							
Bloomington		$ 31	8,365	$ 4,751		$ 55	$ 80
Percentage change from	Jan., 1958	−97.5	−2.7	−30.6	n.a.	−21.8	−15.0
	Feb., 1957	−62.2	−1.5	−0.7		+0.5	−10.8
Champaign-Urbana		$ 68	12,577	$ 7,069		$ 65	$ 89
Percentage change from	Jan., 1958	−48.5	−1.2	−28.6	n.a.	−11.9	−27.7
	Feb., 1957	−67.8	+14.3	+2.7		+6.2	−14.2
Danville		$ 81	12,988	$ 5,182		$ 43	$ 57
Percentage change from	Jan., 1958	−86.8	+0.3	−32.7	−6	−14.0	−20.5
	Feb., 1957	−23.6	+9.1	−3.7	−26	−6.9	+3.7
Decatur		$ 553	35,524	$10,164		$ 102	$ 101
Percentage change from	Jan., 1958	−10.5	+3.6	−30.2	−17[c]	−16.7	−29.5
	Feb., 1957	−37.7	+1.6	−7.1	−14[c]	−4.5	+2.0
Galesburg		$ 292	9,359	$ 3,962		n.a.	$ 35
Percentage change from	Jan., 1958	+163.1	−3.5	−30.3	n.a.		−27.1
	Feb., 1957	+71.8	+5.4	−2.1			+2.5
Peoria		$ 460	48,269[c]	$14,327		$ 184	$ 263
Percentage change from	Jan., 1958	+84.0	−4.6	−33.5	−5[c]	−14.9	−9.8
	Feb., 1957	+3.6	−12.7	−12.4	−20[c]	−11.6	+9.5
Quincy		$1,020	10,851	$ 4,336		$ 38	$ 68
Percentage change from	Jan., 1958	+580.0	+5.4	−31.1	−9	−16.3	−20.3
	Feb., 1957	−34.9	+4.2	−1.4	+3	+3.1	+8.6
Springfield		$ 448	35,632[c]	$12,464		$ 110	$ 273
Percentage change from	Jan., 1958	+57.2	−5.8	−22.7	−16[c]	−15.0	−2.2
	Feb., 1957	+137.0	+8.0	+0.6	−12[c]	+0.8	+15.6
SOUTHERN ILLINOIS							
East St. Louis		$ 84	13,002	$ 7,385		$ 124	$ 58
Percentage change from	Jan., 1958	+29.2	−0.7	−26.0	n.a.	−20.0	−44.8
	Feb., 1957	+6.3	+3.8	−14.7		−6.2	+7.4
Alton		$ 7	12,906	$ 4,210		$ 36	$ 31
Percentage change from	Jan., 1958	−99.5	−1.3	−33.7	n.a.	−9.8	−31.1
	Feb., 1957	−88.3	−6.7	−5.6		+9.3	+11.2
Belleville		$ 41	10,388	$ 4,170		n.a.	$ 38
Percentage change from	Jan., 1958	−77.8	−2.0	−26.1	n.a.		−30.6
	Feb., 1957	+78.3	+31.7	−2.4			−24.4

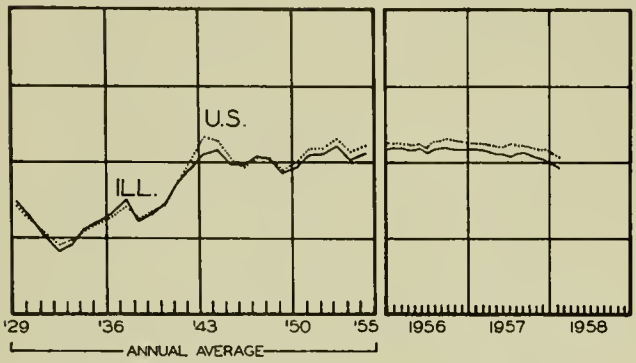
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for January, 1958. Comparisons relate to December, 1957, and January, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded from original sources. [5] Local post office reports. Four-week accounting periods ending February 7, 1958, and February 8, 1957.

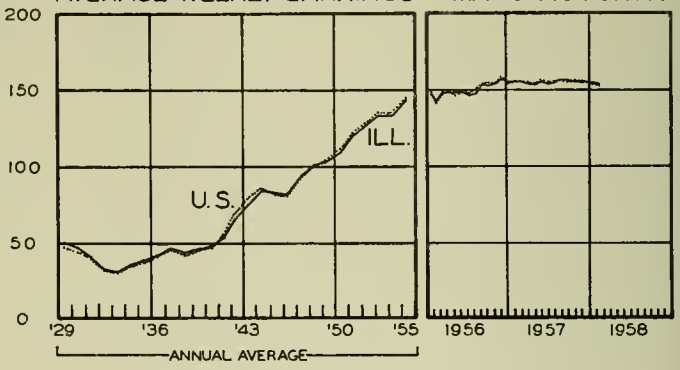
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

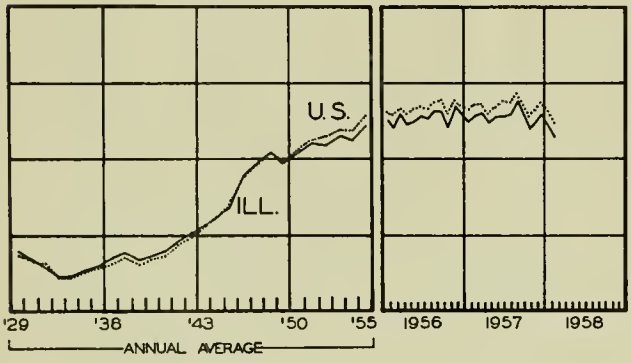
EMPLOYMENT MANUFACTURING



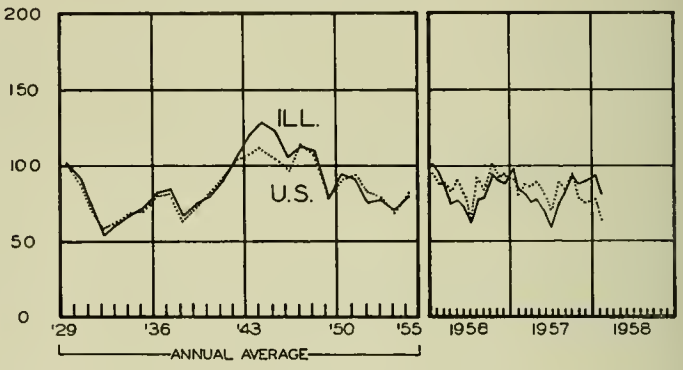
AVERAGE WEEKLY EARNINGS - MANUFACTURING



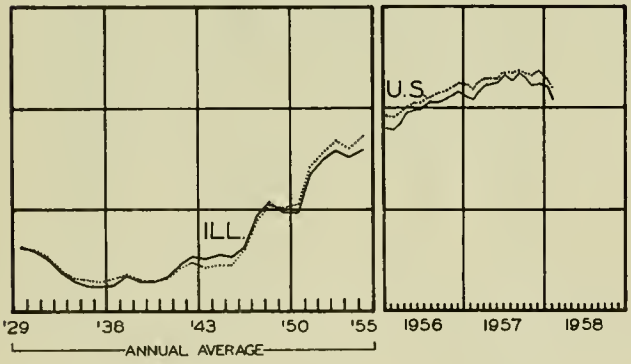
DEPARTMENT STORE SALES



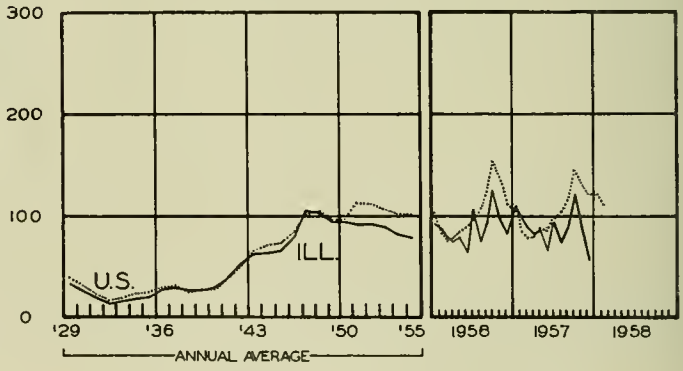
COAL PRODUCTION



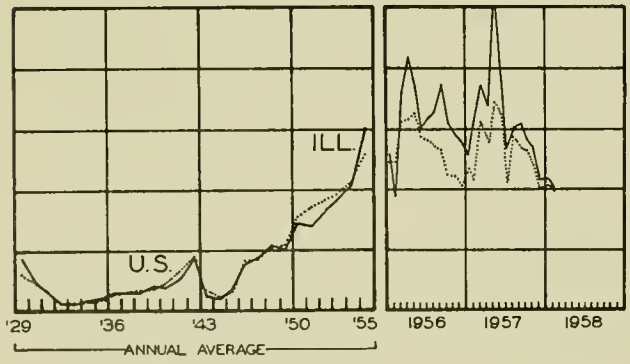
BUSINESS LOANS



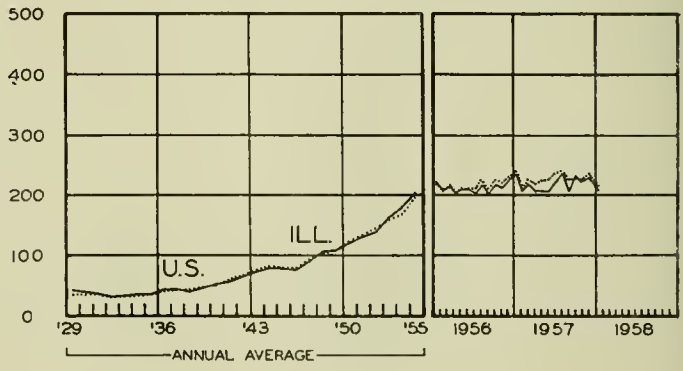
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN APRIL

Business indicators in April offered little ground for hope that an upturn was likely to come in the near future. The Census Bureau survey reported unemployment down 78,000 to 5.1 million, but seasonal influences alone should have brought a reduction of about 10 percent. As a consequence, the seasonally adjusted rate of unemployment rose (see p. 5). A 600,000 increase in employment resulted from large increases in farm employment and other outdoor work and more than offset a drop of 270,000 in factory employment.

Industrial production continued to decline generally. The seasonally adjusted index fell 2 points to 126 (1947-49 = 100), only 3 points above the low of the 1953-54 recession and 14 percent below the all-time high. Steel output averaged about 1.3 million tons per week during April, approximately 10 percent below the March average and more than 40 percent below that of April last year. Production figures for automobiles, paperboard, bituminous coal, petroleum, and electric power were down from March and from April, 1957. Heavy construction awards ran well ahead of both the preceding month and the year-ago month, largely because of increased public contracts for highways and military housing and private awards for mass housing developments.

Department stores sales showed a further rise on a seasonally adjusted basis. The April index was 34 percent above the 1947-49 average, compared with 31 percent for March and 24 percent for February.

Construction Outlays Up

Spending for new construction rose seasonally in April to $3.7 billion. Although this total was $330 million above March, it was about the same as April, 1957, and therefore was slightly lower than the annual rate reached in the first quarter of this year.

A 19 percent increase in expenditures on public construction, mainly for highways, accounted for more than half of the gain over March. The April figure was 5 percent above the 1957 month. Private construction gained 6 percent during the month, primarily because of increased spending for residential building and for public utilities. However, the total for all kinds of private construction was down 2 percent from April a year ago.

Lower outlays in the near future would seem to be indicated by estimates of construction contracts awarded in March, the fourth successive month to show a decline from year-earlier totals. The March figure was down 12 percent from the 1957 month, with decreases in all major categories of construction. Awards for the first three months of this year were 11 percent below the first quarter of last year.

Manufacturers' Sales Decline Slows

After seasonal adjustment, sales by manufacturers revealed a drop of $400 million in March to $25.2 billion, half as great a reduction as took place in February. Most of the decline occurred in sales of durable goods industries; motor vehicle, primary metal, and building material manufacturers were the principal ones noted.

Inventories also fell by $400 million, all of the drop coming in durables — three-fourths of it in the machinery and motor vehicle industries. With stocks at $52.1 billion, the ratio of inventories to sales rose a little further.

New orders received by manufacturers eased off $200 million to $23.9 billion after allowance for seasonal influences. A substantial rise in aircraft orders was more than offset by declines in other heavy goods industries. Unfilled orders dropped $1.2 billion on an unadjusted basis to $46.6 billion, about half of the decline occurring in the transportation equipment industry.

As compared with March, 1957, sales by manufacturers were off $5.3 billion, while inventories were down only $1.3 billion. New orders had fallen $4.5 billion and the backlog of unfilled orders had been cut $16.6 billion.

Consumer Debt Cut

March was the second month in a row during which consumers repaid more installment debt than they incurred. A reduction of $319 million in the total brought it just under $33 billion, but this was still almost $1.5 billion above the end of March last year. A decline of $233 million in outstanding automobile paper accounted for most of the retrenchment, but there was also an $85 million cut in other consumer goods paper. Personal loans and repair and modernization loans each increased about $20 million.

After seasonal adjustment, the drop in installment debt was reduced to $180 million, with most of the revision occurring in other consumer goods paper.

Noninstallment debt also was reduced in March, falling $162 million to $9.6 billion, but after allowance for seasonal factors the reduction amounted to $66 million. Total consumer debt dropped $481 million ($246 million on a seasonally adjusted basis) to $42.6 billion.

CURRENT U. S. FOREIGN ECONOMIC POLICIES · · By Royden Dangerfield · · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Tax and Deficit Policy

First quarter data reveal a loss of real gross national product of over $20 billion from last year's peak. Unemployment has risen to over 5 million, and on a seasonally adjusted basis is continuing to rise.

The government accounts have moved sharply into the red. The deficit for this fiscal year may be around $3 billion, and with expenditures rising and tax receipts falling, it will probably be at least $5 billion higher in fiscal 1959.

These facts might seem to warrant two conclusions: First, that the government should do something substantial to stem the decline; and second, that every billion it lays out for this purpose should produce a billion in upward push for the economy. Neither of these conclusions seems to be acceptable in Washington today.

What Has Been Done

The actions taken so far not only show pitiable ineffectiveness but fail to get value for what they cost the government. This temporizing is the sure way to let the situation get out of hand. With no solid evidence of leveling off, both the Administration and the Democratic leadership in Congress are hopefully basking in publicity releases about the "bottoming-out" of the recession.

Secretary of Commerce Weeks and Secretary of Labor Mitchell insist on getting out misleading releases about the increase in unemployment. Secretary of the Treasury Anderson and Budget Director Stans attempt to freeze Congress into inaction by statements exaggerating the prospective increase in Federal expenditures under present programs.

True, some measures have been passed. The housing bill was supported by extravagant claims about what it would do. The President correctly pointed out in signing it that most of the $1 billion in mortgage purchases would merely be a substitute for private funds that have become amply available since the reversal of monetary policy — a burden on the Treasury with little net return.

The highway bill will no doubt increase the annual rate of activity by a fraction of the $1.8 billion it provides. This bill too has features that substitute Federal for state funds without necessarily increasing the total.

Even the military programs, which were widely touted as economic redeemers ("happy coincidence!"), are not producing the desired effect. President Eisenhower recently decried the "Sputnik attitude," and efforts have been increasingly directed toward getting more for the same money rather than expanding the total program. Increases of several billion seem bound to occur, beginning soon. But given the existing situation, the increases will not be so large as was generally expected and will not necessarily continue beyond fiscal 1959.

Other expenditure programs are generally frowned upon as too slow, too inflexible, or otherwise inappropriate. Lack of conviction as to need prevents agreement on specific proposals. Those who would prefer to attack the problem from the expenditure side of fiscal policy despair of getting significant programs approved. They tend, therefore, to join with those favoring tax reduction as the only hope for quick action. On this alternative there is seeming agreement. Even the consistent budget balancers promise tax cutting as the next important anti-recession move — without saying when!

Deficits are already being incurred, of course, because tax receipts are falling. This kind of deficit, appearing with rates fixed, makes no positive contribution to recovery. Its effects are felt in stability of consumer expenditures, and toting it up as a separate item would merely be double counting. In other words, to make any contribution to recovery, tax rates have to be reduced, making the decline in receipts still sharper.

The Shortcomings of Tax Reduction

The very unanimity with which tax cuts are endorsed suggests that something may be amiss. When kinds of tax cuts are considered, the agreement is seen to be almost entirely superficial — that is, there is no agreement. Practically all kinds of tax cuts are proposed — personal income, corporate, and excise — and both permanent and temporary reductions are advocated.

Since tax cutting depends entirely upon secondary and subsequent effects, the economic stimulus to be obtained from any change in tax rates depends entirely upon the kind of change made. Taxes come partly out of saving rather than spending, and when they are not collected, the proceeds go partly into savings. Reductions that increase the take-home pay of wage earners are likely to reappear in relatively high proportion in consumer purchases. Reductions that leave more income in the higher-income brackets or in corporate accounts are also likely to produce some additional expenditures, but in relatively small proportion. These differences make it clear that if tax reductions are to be made in order to stimulate the economy, they should be confined to those best adapted to this end, and not just granted to all who would use the recession as an excuse for getting their taxes down.

The effects of excise tax cuts are complex. They may partly stimulate buying of the products whose prices are reduced by drawing funds away from other products. These taxes were justified as wartime and early postwar measures to restrict consumption and inflation; but now that conditions have changed, they appear to have outlived their usefulness.

One kind of tax measure that looks attractive for countering a capital goods decline would permit faster write-offs of new plant and equipment. Unfortunately, this type of tax cut tends to aggravate instability. We are now suffering from the after-effects of the privileges granted in 1954, which contributed to the investment boom of 1955-57. Currently, it cannot be shown that any significant increase in capital outlays would occur during the recession. The concerns running out existing programs

(Continued on page 8)

ILLINOIS — A LEADER IN BEVERAGE DISTILLING

Americans are drinking more distilled liquors today than at any time since Prohibition, with the exception of the "victory" year, 1946. The national consumption level was 1.25 gallons per capita in 1957, compared with 1.65 in 1946 and 1.03 in 1939. Moreover, the share of the population living in "wet" areas has been growing. Latest estimates show that 84 percent of the population now lives in "wet" areas compared with 81 percent in 1947.

Rise Since Prohibition

No other major industry in our country has been abolished by legislative decree as the distillery industry was in 1919. During Prohibition most of the industry's capital goods had to be scrapped, except in plants of the few distillers that turned to the manufacture of yeast, near-beer, soft drinks, industrial alcohol, chemicals, and miscellaneous food products. Immediately after Repeal in 1933, the industry, which had become well concentrated before Prohibition, needed large amounts of capital for plant restoration as well as for accumulation of stocks for aging. As a result, distilleries came into the hands of large corporations to a greater extent than before Prohibition.

The huge demand for industrial alcohol during World War II proved a boon to these distilleries, though production of alcoholic beverages was restricted by wartime controls. The profits derived from high-level production in war and early postwar years enabled some distilleries to diversify their operations later by entering such areas as oil, gas, antibiotics, and chemicals.

The Postwar Industry

Although consumption has been rising, the industry has not regained the production peaks of the middle 1930's and late 1940's. This is because consumption and production are separated by a long aging period and because production has been cut as a means of reducing stocks. Production fell off sharply in 1952 after stocks rose to an all-time high of 925 million tax-gallons in 1951. Bottled output in 1956 was an estimated 196 million gallons, 77 percent of which was whiskey. Other types of liquor and percentages of total bottled output were gin, 11 percent; vodka, 6 percent; cordials, 4 percent; brandy, 2 percent; and rum, 0.3 percent.

The distilled beverage industry today consists primarily of a small number of large firms, the largest proportion of which are concentrated in a few states. Seventy percent of total production comes from four Midwestern states — Kentucky, Illinois, Indiana, and Iowa, in order of production. California ranks high as a producer, primarily because of its numerous fruit distilleries.

The distillery industry paid an all-time high of $2.8 billion in taxes to Federal, state, and local governments in 1956, an increase of 394 percent since 1939. Nearly 75 percent of this total was derived from Federal excise taxes, which at $10.50 a gallon are approximately ten to twelve times the cost of production. Illicit traffic, or bootlegging, which is related to the high tax levels, is estimated at about one-fourth of the total volume sold. Revenue agents seized more than 11,800 stills last year.

There were 133 distilleries (excluding those making brandy, which were classified with wine distilleries) in 1954, according to the *Census of Manufactures*. The number today is believed to be much lower; the Internal Revenue Service reports only 85 registered distilleries for the fiscal year 1957. The average plant added $2.6 million by manufacture in 1954 compared with $2.1 million in 1947. This rise is attributed to the smaller number of plants because the industry's total value added declined 24 percent to $356 million in 1954. The same was true of employment: the average plant increased the number of its workers from 134 to 161 for the corresponding period, but total employment fell 30 percent.

Several postwar trends have been noticed: (1) the increased consumption of vodka, which was nearly nonexistent in 1949, as reflected by the growth of bottled output to 11.8 million gallons by 1956; (2) the return to straights from the blends of World War II days when manufacturers resorted to blending to conserve dwindling supplies of straight whiskeys; and (3) a noticeable decline in the "fifth" (which is, however, still the most popular) and the one-pint sizes and a steady increase in full-quart bottles.

Distilling in Illinois

Illinois is one of the leading distillery states. It ranks second in whiskey and vodka production and third in gin manufacture. In total production of distilled beverages the State is third behind Kentucky and California, with 31.3 million tax gallons for the fiscal year ending June 30, 1957. Illinois has remained a leading state despite the decline in the number of beverage distilleries from fourteen in 1947 to four in 1957.

Kentucky, which now exceeds Illinois in the volume of grain distilling, was a fierce rival at the turn of the century when Illinois was the leading distilling state. Kentucky has been able to outdistance Illinois by emphasizing brand-name whiskeys.

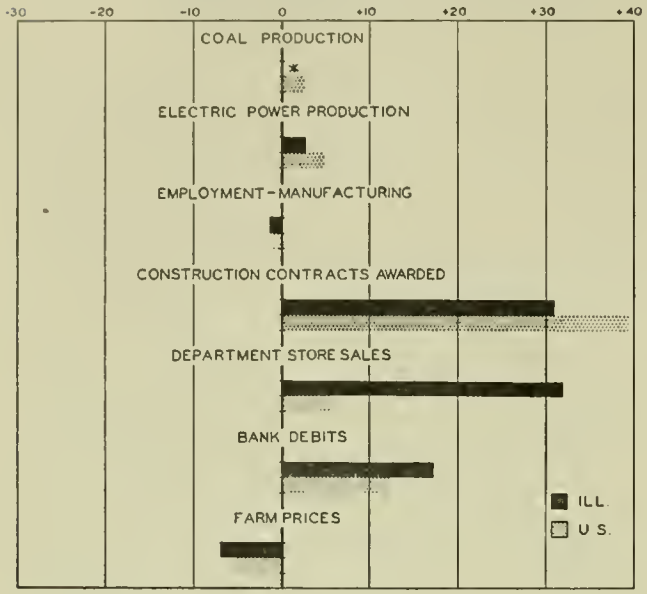
As of July, 1957, there were four registered beverage distillers in the State, two at Peoria and one each at Pekin and Columbia. Although it has given way to Louisville, Kentucky, as the principal distilling center of the country, Peoria today is still the State's leading producer of distilled spirits as well as other types of beverages. For example, in 1954 it accounted for nearly half of the $140 million added by manufacture by the State's total beverage industry (including soft drinks and beer). There were about 2,500 employees in Illinois distilleries in 1954, 1,600 fewer than in 1947.

Illinois granted nearly 21,000 retail licenses for the sale of spirits last year; only New York issued more. An estimated 16 million gallons of liquor was shipped for drinking purposes to Illinois wholesalers, thus placing Illinois third in total apparent consumption. However, the State ranked eighteenth in terms of proportion of population living in "wet" areas. There were four Illinois counties, with 12.3 percent of the population, prohibiting distilled liquor sales last year.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1958, to March, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	March 1958 (1947-49 =100)	Percentage change from Feb. 1958	Percentage change from Mar. 1957
Electric power[1]	213.8	+ 2.7	− 2.8
Coal production[2]	80.9	0.0	− 0.5
Employment—manufacturing[3]	95.3	− 1.5	−11.5
Weekly earnings—manufacturing[3]	151.8[a]	− 1.2	− 2.4
Dept. store sales in Chicago[4]	124.0[b]	+11.7	+ 0.8
Consumer prices in Chicago[5]	126.8	+ 0.5	+ 4.3
Construction contracts awarded[6]	264.3	+31.0	−28.6
Bank debits[7]	189.6	+17.2	− 2.2
Farm prices[8]	79.0	− 7.1	−10.2
Life insurance sales (ordinary)[9]	289.6	+19.1	− 5.0
Petroleum production[10]	131.2	+ 8.9	+ 8.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] February data; comparisons relate to January, 1958, and February, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	March 1958	Percentage change from Feb. 1958	Percentage change from Mar. 1957
	Annual rate in billion $		
Personal income[1]	341.4[a]	− 0.1	+ 0.4
Manufacturing[1]			
Sales	302.4[a]	− 1.6	−12.5
Inventories	52.1[a, b]	− 0.8	− 0.4
New construction activity[1]			
Private residential	14.0	+10.5	+ 0.5
Private nonresidential	14.8	+ 3.2	− 0.9
Total public	11.5	+11.8	+ 7.3
Foreign trade[1]			
Merchandise exports	16.1[c]	−11.0	−19.7
Merchandise imports	11.5[c]	−12.2	− 3.2
Excess of exports	4.6[c]	− 7.7	−43.8
Consumer credit outstanding[2]			
Total credit	42.6[b]	− 1.1	+ 5.1
Installment credit	33.0[b]	− 1.0	+ 5.5
Business loans[2]	30.9[b]	+ 1.6	− 1.6
Cash farm income[3]	25.7[b]	−20.8	+ 6.2
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	128[a]	− 1.5	−11.7
Durable manufactures	135[a]	− 1.5	−17.2
Nondurable manufactures	124[a]	− 0.8	− 5.3
Minerals	113[a]	− 5.0	−14.4
Manufacturing employment[4]			
Production workers	94	− 1.6	−11.2
Factory worker earnings[4]			
Average hours worked	96	+ 0.3	− 4.0
Average hourly earnings	158	0.0	+ 2.4
Average weekly earnings	153	+ 0.3	− 1.7
Construction contracts awarded[5]	275	+39.3	−11.6
Department store sales[2]	131[a]	+ 5.6	− 4.4
Consumer price index[4]	123	+ 0.7	+ 3.7
Wholesale prices[4]			
All commodities	120	+ 0.6	+ 2.4
Farm products	100	+ 4.6	+13.2
Foods	111	+ 0.7	+ 6.8
Other	126	0.0	+ 0.2
Farm prices[3]			
Received by farmers	88	− 5.4	− 9.3
Paid by farmers	118	− 2.5	− 3.3
Parity ratio	81[d]	− 2.4	− 6.9

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for February, 1958; comparisons relate to January, 1958, and February, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Apr. 26	Apr. 19	Apr. 12	Apr. 5	Mar. 29	Apr. 27
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,133	1,180	1,160	1,170	1,215	1,662
Electric power by utilities mil. of kw-hr	11,206	11,107	11,307	11,326	11,645	11,310
Motor vehicles (Wards) number in thous.	75	90	102	81	112	148
Petroleum (daily avg.) thous. bbl.	6,288	6,251	6,187	6,250	6,264	7,537
Steel 1947-49 =100	74	75	76	76	79	132
Freight carloadings thous. of cars	534	534	521	516	532	691
Department store sales 1947-49 =100	136	125	110	134	122	131
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.4	119.5	119.6	119.6	119.8	117.2[a]
Other than farm products and foods 1947-49 =100	125.7	125.7	125.8	125.9	125.9	125.4[a]
22 commodities 1947-49 =100	84.1	84.8	84.4	84.5	85.5	88.7
Finance:						
Business loans mil. of dol.	30,252	30,662	30,668	30,842	30,658	31,349
Failures, industrial and commercial number	329	346	342	352	327	263

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for April, 1957.

RECENT ECONOMIC CHANGES

Unemployment

The Commerce Department has reported that mid-April unemployment decreased 78,000 from the previous month to a total of 5,120,000. However, the decline was much less than the normal seasonal reduction of about 10 percent between mid-March and mid-April, and as a result, the seasonally adjusted rate of unemployment rose to 7.5 percent of the labor force, compared with 7.0 percent the month before and 4.0 percent a year earlier.

Census data in thousands of workers are as follows:

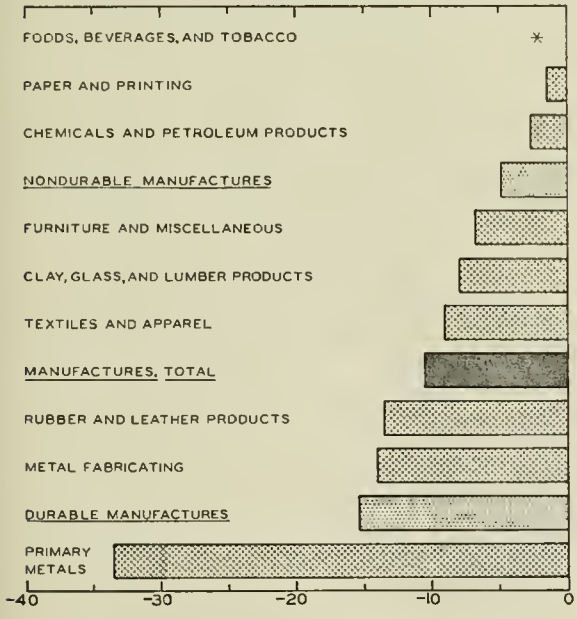
	April 1958	*March 1958*	*April 1957*
Civilian labor force	68,027	67,510	66,951
Employment	62,907	62,311	64,261
Agricultural	5,558	5,072	5,755
Nonagricultural	57,349	57,239	58,506
Unemployment	5,120	5,198	2,690
Seasonally adjusted rate	7.5	7.0	4.0

Production

The Federal Reserve Board index of industrial production fell again in March. The seasonally adjusted index of 128 (1947-49 = 100) was 2 points lower than in February and 17 points, or 12 percent, lower than in March, 1957. Production decreases were registered in most major groups of durable and nondurable manufactures in March, bringing about a 2 point drop in the index of total manufacturing production from 131 in February to 129.

The accompanying chart indicates the extent of the decrease in output for major groups of manufacturing industries from the first quarter of 1957 to the first quarter of this year. With the exception of the manufactured food group, all major industries experienced decreases over the year. The decline in durable manufactures was pronounced, amounting to about 15 percent.

CHANGES IN OUTPUT OF MAJOR MANUFACTURING INDUSTRIES



PERCENTAGE CHANGE, 1st QTR. 1957 TO 1st QTR. 1958

* No change.

Source: U. S. Department of Commerce.

Housing Starts

Nonfarm housing starts rose to 79,000 units in March, about 14,000 higher than the unusually low February level, according to preliminary estimates of the Bureau of Labor Statistics. However, the March figure was still 9 percent below the same month last year.

Private housing starts, which had fallen to 60,000 units the month before, jumped to 75,100 in March. But the gain was less than expected for this time of year, and the seasonally adjusted annual rate for March was lower than in February. The March annual rate of only 880,000 starts was also the lowest rate since the early months of 1949.

Gross National Product

Total income and expenditures reflected a marked drop in over-all economic activity between the fourth quarter of 1957 and the first quarter of this year, according to figures released by the United States Department of Commerce. The seasonally adjusted annual rate of GNP fell $10.6 billion during the first three months of 1958, chiefly as the result of a sharp decline in gross private domestic investment. The $422.0 billion annual rate in the first three months of 1958 was the lowest since the third quarter of 1956.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1958	*4th Qtr. 1957*	*1st Qtr. 1957*
Gross national product	422.0	432.6	429.9
Personal consumption	281.2	282.4	276.7
Durable goods	31.5	34.4	35.9
Nondurable goods	141.5	140.8	137.3
Services	108.2	107.2	103.4
Domestic investment	51.8	61.3	63.6
New construction	33.3	34.0	32.8
Producers' durable equipment	27.5	30.0	30.7
Change in business inventories	−9.0	−2.7	.0
Nonfarm inventories only	n.a.	−3.4	−.3
Foreign investment	1.5	2.0	4.1
Government purchases	87.5	87.0	85.6
INCOME AND SAVINGS			
National income	n.a.	356.1	355.6
Personal income	342.5	345.5	338.3
Disposable personal income	300.1	302.1	296.1
Personal saving	18.9	19.8	19.5

Most of the $9.5 billion decline in private domestic investment was accounted for by a sharp acceleration in the rate of inventory liquidation during the period. The remainder of the drop was produced by a $2.5 billion fall in outlays for durable equipment.

Profit Margins Lower in 1957

Sales of manufacturing corporations in 1957 totaled slightly over $320 billion, about $13 billion more than in the previous year. However, profits failed to keep pace as costs and expenses of doing business continued, in each quarter of 1957, to absorb an increasingly larger portion of the sales dollar. Thus, the profit margin, as measured by the ratio of profits after taxes to sales, was down slightly in 1957, falling from 5.3 in 1956 to 4.8 last year.

The profit decline was also reflected in the reduction in the rate of profit on stockholders' equity from 12.0 percent in 1956 to 10.7 percent last year.

CURRENT UNITED STATES FOREIGN ECONOMIC POLICIES

ROYDEN DANGERFIELD, Institute of Government and Public Affairs

Before the second session of the 85th Congress adjourns it may well be that 1958 will have become the year of crucial decisions with respect to the future foreign trade policy of the United States.

In a special message to Congress on January 30, President Eisenhower asked for legislation permitting "continuation of the Reciprocal Trade Agreements Program on an effective basis for a minimum of five additional years from June 30, 1958." He pointed out that export trade created jobs and that imports were essential to industry. Trade has "helped bring a more vigorous, dynamic growth to our American economy." He stated that trade is important to our allies and "is essential to enable us to meet the latest form of economic challenge to the free world presented by communism."

For the past two years, opponents and proponents, well aware that the Trade Agreements Act would expire in 1958, have been at work preparing their cases. Midway through the congressional session it appears that the trade agreements program, as Senate Majority Leader Johnson stated, "is in very serious trouble in the House, and I haven't found much encouragement for it here in the Senate."

History of the Trade Agreements Act

When recommended to Congress in 1934, the trade agreements program was presented as a part of the recovery program. It authorized the President, for a three-year period, to reduce (or increase) by 50 percent "any existing rate of duty" by negotiating reciprocal agreements with other countries. The extension acts of 1937, 1940, and 1945 did not alter the power but merely extended the period during which it could be exercised.

By 1945 the President had exhausted most of the bargaining power granted in the original act. The Trade Agreements Extension Act of 1945 adopted a new base. The President was authorized to reduce (or increase) rates as much as 50 percent of the duty "existing on January 1, 1945." The second base was carried without change in the extension acts passed by Congress in 1948, 1949, 1951, and 1953. In 1955, Congress granted the President power to reduce rates, through reciprocal trade agreements, by as much as 15 percent of the rates existing on January 1, 1955. Thus, if a particular rate had been reduced to the maximum degree under the 1934 act, the 1945 act, and the 1955 act, it would have been lowered to 21.25 percent of the Smoot-Hawley rate.

In 1947 the United States adhered to the General Agreements on Tariffs and Trade (GATT), which resulted from multilateral negotiations respecting tariffs and other trade barriers. The agreement had the effect of extending concessions granted to one state to others signatory to GATT. Representatives of 35 nations attending the ninth session of the signatories of GATT in Geneva from October 28, 1954, to March 21, 1955, drafted and signed an agreement establishing the Organization for Trade Cooperation (OTC).

According to its provisions, the agreement cannot come into effect until accepted by countries accounting for 85 percent of the foreign trade of the GATT signatories. Since the United States accounts for more than 20 percent and the United Kingdom for 18 percent of GATT trade, the OTC agreement must be ratified by both countries before it can become effective.

No action was taken by either house, beyond the holding of hearings, during the 84th Congress. Those favoring the principles of "protective tariffs" were able to forestall action. In January, 1957, President Eisenhower returned to the battle and urged Congress to pass legislation authorizing United States membership in OTC. Again Congress refused to support the measure.

Congress has developed a strong opposition to multilateral negotiations respecting tariffs. All recent trade agreements extension acts have included a reservation stating that the passage of the legislation "shall not be construed to determine or indicate the approval or disapproval by Congress of the executive agreement known as the General Agreement on Tariffs and Trade."

Peril Points and Escape Clauses

While Congress has agreed to three stages in the lowering of rates, there have been growing pressures to write into trade agreements legislation greater safeguards for industries which felt they were being injured by the negotiation of trade agreements.

The first successful effort at restricting the President's power came in 1948. The Republican-controlled 80th Congress inserted the "peril point" provision in the extension act of that year. The purpose of the amendment was to make certain that the rates agreed to in negotiation of reciprocal trade agreements would not be fixed below a point where competitive imports might cause or threaten serious injury to domestic industry.

A second successful effort to provide greater safeguards for industries was the adding of the "escape clause" to trade agreement legislation. As early as 1942 the Administration, in response to criticism, but on its own volition, included an escape clause in the trade agreement with Mexico. Under its terms either party can suspend or modify a concession granted if, because of unforeseen circumstances, increased imports threatened serious injury to domestic producers. The 1951 act required an escape clause to be included in every trade agreement. It directed that negotiations be undertaken to include such a clause in earlier agreements.

In all there have been 83 investigations by the Tariff Commission on application for relief under the escape clause. The commission found for the applicant and recommended termination or alteration of concessions in 25 cases. The President acted to afford relief in seven cases. Dr. Howard Piquet has pointed out that

> . . . it would be a mistake to conclude, since relief under the escape clause has been obtained in less than ten percent of the applications filed, that the escape clause is not an important deterrent to imports. The fact that the provision is in the law, and that action can be taken under it, is still an important deterrent. This is particularly so with respect to manufactured products, the successful marketing of which in the United States requires substantial outlays for advertising and the maintenance of service. As long as there is a probability that success in the American market will precipitate action under the escape clause, there will be hesitancy on the part of foreign producers to introduce new products on the American market.

Two additional bases for action appear in other legislation. Under Section 22 of the Agricultural Adjustment Act the President is empowered to take action resulting

in relief. A very much higher percentage of applications for relief have resulted in affirmative presidential action than has been true of the escape clause cases. The Office of Defense Mobilization is authorized to recommend to the President that concessions be terminated or altered in cases where defense considerations require it. Such action has been taken on a number of applications.

Those who seek protection for domestic producers insist that the safeguards under the escape clause are destroyed by the fact that the President has discretionary power and has not followed the recommendations of the Tariff Commission. Those who desire to promote a more liberal trade policy contend that the mere existence of the escape clause constitutes a real barrier to the development of import trade. The protectionists want to give greater power to the Tariff Commission and remove the discretion of the President. Those favoring further removal of trade restrictions want to eliminate the escape clause from the Trade Agreements Act.

The 1958 Debate

The current debate is but a continuation of the 24-year struggle over trade agreements legislation. This year the opponents of the program are better organized and are prepared to make a greater effort. They are aided by two developments. The Southern members of Congress, who have been supporters of more liberal trade policy in the past, are now faced with the demands of the Southern textile industry for protection. The second development is the recession. Legislators are less prone to vote for reduction of trade restrictions when faced with unemployment. Both developments support those opposing further reduction in tariff rates and continuation of the trade agreements program.

Since the close of World War II, trade policy has taken on wider significance than mere "pocketbook interest." Consequently, organizations with principal interests in other fields have added their voices in support of more liberal trade policy or in favor of greater protection.

Supporting a more liberal trade policy and favoring the President's five-year extension of the trade agreements program are the major farm organizations; the national leadership of the AFL-CIO, the United Auto Workers, and the Steel Workers; importers; shipping lines; and major oil companies with extensive overseas interests.

Various business and labor groups stand in opposition to the extension of the Trade Agreements Act. For the most part these are representative of industries which have suffered injury from the lowering of rates on imports of particular commodities or which fear injury from competition with foreign imports.

Two national organizations have been prominent in the campaign for the act. The National Foreign Trade Council, representing some 800 companies engaged in foreign trading, supports renewal of the Trade Agreements Act. The Committee for a National Trade Policy supports a long-term extension of the act. It prefers extension for an eleven-year period. The committee urges revision of the "escape clause" so that it can be invoked only in those cases where domestic producers are clearly injured by competition with imports.

There are also two organizations which have been prominent in the opposition to the act. The American Tariff League, representing 274 organizations, wants to maintain protective tariffs on competitive articles. The Nation-Wide Committee of Industry, Agriculture and Labor on Export-Import Policy urges that the President be obliged to accept the recommendations of the Tariff Commission with respect to escape clause cases. Both urge that the tariff act be amended so as to permit import quotas to be imposed under the escape clause.

Debate continues as to the importance of foreign trade to the American economy. It is quite correct to say that our record exports of goods and services are less than 6 percent of the gross national product, but reporting facts in this way leaves one with the feeling that overseas sales are of marginal value to the economy. As President Eisenhower has pointed out, the value of exports of goods and services ($23.5 billion in 1956) exceeded personal consumption expenditures on automobiles and parts ($14.6 billion), furniture and other durable household furnishings ($15 billion), clothing and shoes ($21.6 billion). The total receipts from abroad in 1956 exceeded, by $10 billion, the net income received by farmers from agriculture ($13.5 billion). One out of five acres of farm land is producing for export. The export orientation of industry is particularly marked in capital equipment and agricultural staples.

The protectionists are genuinely fearful that further reduction of tariff protection will inundate the American markets with foreign manufactures. Studies made by Dr. Howard Piquet reveal that the increase in imports which would follow the complete removal of American tariffs would be neither large nor sudden. He concluded that the suspension of duties would probably induce an increase of between 17 and 38 percent in imports now dutiable, or 8 to 17 percent in total imports, and that it would take several years to produce such an increase.

Trade Policy as Foreign Policy

There is never-ending debate as to whether our tariff rates are too high or too low. But the battle will not be decided in terms of whether the existing level of protection is high or low. Rather the victory will be won or lost in terms of whether the Congress and the people view trade policy as primarily domestic or foreign policy.

The opponents of the Trade Agreements Act tend to object to the role played by the Department of State in the administration of the program and to demand a greater role for the Tariff Commission. The proponents of extension of the act have no great confidence in the Tariff Commission. This difference characterizes the conflict. Those who support the Trade Agreements Act view trade policy as a part of foreign policy. Those opposing the program view trade policy as domestic in character.

President Eisenhower has emphasized that trade policy is a part of foreign policy and that foreign trade is a principal weapon in the cold war. He has listed as the three most important legislative measures before the Congress the reorganization of the Defense Department, the Foreign Aid Bill, and the extension of the Trade Agreements Act. Each of these measures was evaluated as being essential to the defense of the free world.

The President indicated that he is prepared to battle for his proposal for a five-year extension of the Trade Agreements Act. Passage by Congress will require such a fight on the part of the Administration. During the struggle over the renewal of the act in 1953 and 1955 there were statements that the Administration was prepared to fight for its proposals. In the end it settled for compromises and avoided pitched battles. The compromises of those years weaken the Administration's position in 1958. As of May, 1958, it appears safe to predict that the Administration will again have to accept compromises at a level less than victorious.

Tax and Deficit Policy

(Continued from page 2)

and those who had to replace or improve facilities for other reasons might welcome the new benefits if they were still in a profit position. But most concerns would not be willing to invest in facilities on which they could no longer make a profit merely because there was a prospect of getting taxes down later. On the other hand, the economy can ill afford the kind of instability in investment engendered by fast amortization proposals.

It is often asserted that reducing high-bracket and corporate taxes will make additional savings available for new productive investment. This, however, is very improbable in a recession. The kind of "investment" most likely to be stimulated is investment in the bonds issued by the government to finance the deficit. A high level of transfers could be effected in this way without any significant effect on activity.

A large, temporary reduction might produce the least effect of all. Experience indicates that "windfalls" are not spent to the same extent as regular income. A study of the veterans' insurance refunds of early 1950 indicated that the additional expenditures from such payments during the year amounted to only half of the total received, even though they were very widely distributed, in comparatively moderate amounts. There is much additional evidence to indicate that transitory components of income do not affect consumer expenditures to the same extent as the permanent components.

One way to perceive the difficulty with any given total of tax reductions is to assume that tax rates will be left unchanged and an equivalent amount will be given away to those most likely to spend the funds received for goods and services. On this basis, the bulk of the funds would probably go to recipients whose position is such as to exclude them from tax liability, namely, to the unemployed. This line of reasoning leads to the conclusion that there is no tax cut that "best" satisfies both the objective of stimulating the economy and the government's responsibility for the welfare of that segment of the population whose needs are most pressing.

Some Pros and Cons of Tax Cutting

From this brief review of shortcomings, it might be concluded that tax reduction is the "weak sister" of the fiscal policy team. The "leakages" from most tax cuts would be substantial, so that the government would get less than full value for the revenues forgone. However, if rate reductions were confined to the more efficient kinds of taxes, the stimulus would be considerably greater per dollar than that of some measures already approved.

One reason for favoring a tax cut now is that once adopted it would have almost immediate effects. This is the thinking of those who favor "pump-priming." Actually, the situation is one that requires more than just a quick stimulus; it will probably require a sustained effort on a continuing basis, making the best use of available resources. This objection may perhaps be waived, since a reduction made for a temporary period, say, just one year, would almost surely be renewed if conditions were still adverse. However, the probability of extension is itself a reason for thinking of any measures as "permanent" from the outset, and not just temporary.

Another argument in favor of tax cutting is that current tax rates are too high and exemptions too low, having been set in wartime and not subsequently modified to take account of postwar inflation. The existing rates, however, do not produce inordinate surpluses in prosperity years. They are apparently high enough to cover existing programs if personal and corporate incomes could be maintained near the peak rates. They provide little if any margin for expansion of anti-recession expenditures. Furthermore, taxpayers have generally adjusted their activities to the existing rates, so that there is no reason to think that they have an unduly depressing effect. Certainly, no such effect was noticeable in the recent boom. A good case can be made for setting rates that will produce a surplus in boom times and for keeping those rates relatively stable through recessions, relying on expenditure programs for compensatory effects.

Furthermore, a limited tax cut will not solve the current problem despite the emphasis being placed on the importance of such cuts in ending the recessions of 1949 and 1954. In both those situations, other factors were favorable, and there is no evidence that tax reductions made greater than normal contributions. The stimulating effect of any tax cut is bound to be less than the reduction in government revenues except as it may tend to stimulate fears of inflation and a flight from the dollar. A modest tax cut of, say, $5 billion could hardly produce the latter response. If it were somewhat biased in favor of the lower income groups it would probably expand expenditures by $3 billion to $4 billion. If it had to be more generally distributed in order to command sufficient support to be enacted, the stimulus would be less.

Wide Latitude for Action

The big objection to tax cutting, of course, is that it is a "pure deficit" approach to overcoming our depression difficulties. Any loss of revenue creates just that much more of a problem of government finance — and the deficit would be counted at full value as against the partial returns from private spending.

The question is, How large a deficit should the government incur? Last month it was pointed out that there are real dangers in action that is too extreme or too violently changing. These are the reasons for avoiding measures that try to do too much too quickly.

It should be recognized, however, that there is a wide difference between doing too much and doing practically nothing at all. We may agree that running deficits of $50 billion a year would merely replace one kind of instability with another, tending toward all-out inflation and ultimate collapse. But this does not rule out more limited action. Moderate deficits hold no such threat and may have no perceptible effects beyond those resulting from the measures in which they originated.

Our financial resources are tremendous, and government credit will remain strong despite substantial deficits. In a recession, the money supply tends to fall off as bank loans come due and the banks are unable to find new borrowers. Government borrowing is an offset to this tendency and strengthens the private economy by keeping purchasing power high. The banks and other lenders may be expected willingly to make funds available to the government under these circumstances.

It seems clear that deficits of $10 billion per year for five years could be taken in stride. If the situation required deficits averaging $15 billion for ten years to bring us back up to a new peak of prosperity, we could still count ourselves fortunate. The national debt would then be less than the gross national product, remaining clearly manageable, and the burden of interest payments would still be a minor portion of the Federal budget. The circumstances clearly call for more effective government action to prevent the depression from deepening. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Retail Cost of Foods

The retail cost of the "market basket" of foods as reported by the United States Department of Agriculture increased from an annual rate of $1,015 in the fourth quarter of 1957 to $1,054 in the first quarter of 1958. The result of this $39 increase was that retail costs in the first three months of this year surpassed the previous high recorded in the third quarter of 1952. Farmers received approximately $29 of the increase and $10 was received by marketing agencies.

As a result of cyclical decreases in the number of animals and the withholding of stock by farmers for feeding or breeding purposes, the marketing of meat animals was down and prices up. This increase in meat prices accounted for more than half the rise in retail and farm prices. Because of unfavorable weather, prices of fresh vegetables and citrus fruits also rose sharply during the winter months.

Prices received by farmers for food products averaged 13 percent higher in the first quarter of 1958 than in the corresponding period of the previous year. The quarterly average was reported to be the highest since January-March, 1954. Also, average unit marketing charges for farm food products were 4 percent higher in the first quarter than in the same period of 1957. Because of the greater increase in farm prices than in marketing charges, the farmers' share of the consumers' food dollar increased to 41 cents from 39 cents in the first quarter of 1957. Since January 1, 1947, the quarterly average of the farmers' share has varied from 39 to 52 cents.

Auto Attachments

The FogMaster Company, Inc., 205 West 19th Street, New York 11, New York, has announced the marketing of their new product called "FogMasters." It is reported that the "FogMasters" are clear yellow plastic filters which are placed over the headlights, thus converting them into foglights. The clear yellow light is reportedly not reflected back from the fog into the driver's eyes and it does not create a glare which is disturbing to oncoming cars. The reported price is less than one dollar.

A new fire extinguisher call "Protect-all," primarily designed to minimize auto fire hazards, has just been released by the American LaFrance Corporation, Elmira, New York. This extinguisher uses dry powder to put out gasoline, oil, and grease fires as well as fires originating in a car's upholstered interior. The fire-killing agent of the extinguisher is a clean, pure white, dry powder that is expelled by compressed air.

Foreign Travel

The United States Department of Commerce reported that expenditures by Americans on foreign travel amounted to more than $1.9 billion in 1957, an increase of 90 percent over 1950 and 171 percent over a ten-year period. The expenditures were composed of $1.4 billion spent in foreign countries, an additional $250 million paid to foreign carriers for transportation, and $300 million paid to United States shipping companies and airlines in fares.

The two leading beneficiaries of American expenditures abroad were Canada and Mexico, with Canada receiving $340 million and Mexico $300 million in 1957. It was reported that approximately a half billion dollars was spent in the countries of Western Europe, with Italy, France, and the United Kingdom leading. It is also interesting to note that this country benefited from foreigners traveling in the United States to the extent of about $800 million in 1957, which included fares paid to United States carriers by foreigners. This amount exceeded revenues received from such major exports as tobacco and tractors.

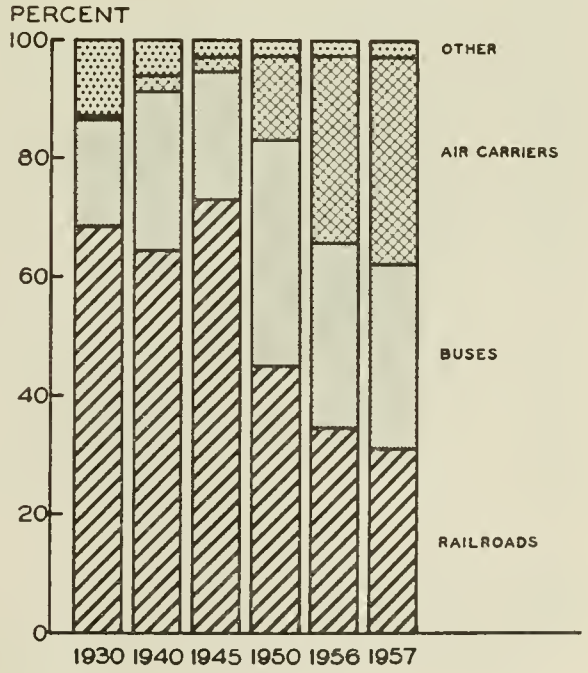
Railroads in 1957

The railroads suffered from inflation and declining business activity in 1957. Traffic declined, wages and other costs continued to rise, and net earnings were down. Freight carloadings in 1957 were 6 percent below those of 1956, and passenger miles declined 8 percent. The rate of return earned in 1957 was approximately 3 percent on net investment in property, a return lower than that earned in any of the seven preceding years except 1954.

Competition for intercity passenger traffic in the United States has further reduced the railroads' share, which in 1957 was less than half that of 1945. In contrast, the share of the air carriers has been greatly expanded (see chart). In the chart, inland waterways and electric railways are combined under the heading "other."

The highlight of 1957 was the installation of more new freight cars than in any of the past thirty years, with the single exception of 1954. More than 88,000 new freight cars were placed in service for Class I railroads. After allowing for the replacement of old cars, total freight car ownership increased 39,000. These new freight car purchases, along with other new capital programs, brought total capital expenditures to a near record level of almost $1.4 billion in 1957.

PERCENTAGE DISTRIBUTION
OF PASSENGER MILES



Source: *Yearbook of Railroad Information, 1958,* p. 4.

LOCAL ILLINOIS DEVELOPMENTS

Sharp gains from a month earlier were recorded by several of the major indexes of Illinois business activity during March; but for the greater part, they remained below the March, 1957, level. Although construction contracts awarded increased 31 percent from February, they were still 29 percent below March of a year ago. Life insurance sales showed increases of 19 percent from the previous month, but dropped 5 percent below the life insurance sales of March, 1957. Bank debits were 17 percent higher than February but 2 percent below March of a year ago.

Illinois farm prices, in contrast to the national average, showed the greatest decline during March, falling 7 percent; in comparison with farm prices of a year ago, a drop of 10 percent was reported. Department store sales, petroleum production, and consumer prices were the only indexes during March that showed increases over both February, 1958, and March, 1957.

Public Aid

The Illinois Public Aid Commission recently announced that 330,522 persons had received $14.8 million from the five public assistance programs in February, 1958. The report shows that the number receiving assistance is increasing but the amount of assistance received by those on the public rolls is declining. In February, 1958, the average grant amounted to $44.83 per person as compared with $45.69 in January, 1958, and $46.73 in February, 1957.

Of the five public assistance programs, 37 percent of the persons receiving public aid are on the general assistance rolls and are receiving 26 percent of total expenditures. Aid to dependent children accounted for 33 percent of the persons and 27 percent of total expenditures. Assistance to the aged went to 25 percent of the persons but amounted to the largest proportion of total expenditures with 38 percent. Assistance for the blind and disability assistance accounted for the remaining portion.

Public Works Projects

In a recent issue of the *Illinois Labor Bulletin,* it was reported that an average of over 200,000 workers were employed last year on construction projects in Illinois, an all-time record for the State. With the aid of $660 million now available for public works programs, construction work is slated to continue at a high level. It is estimated that these programs will require an employee force of 92,000 persons. Of these persons, an estimated 60,000 workers will be needed on regular highway programs, for which outlays of $360 million are planned. Expenditures amounting to about $193 million are planned for toll road work for the year, with more than 25,000 persons scheduled to be employed when construction reaches its peak.

In addition to these projects, construction plans include $24 million for building at the University of Illinois, $6 million at Southern Illinois University, and approximately $10 million at other State universities. The State Department of Aeronautics has plans for 28 projects, which are expected to cost about $8 million.

Cattle on Feed

Farmers in Illinois had 628,000 head of cattle on grain feed for market as of April 1, 1958. This was 3 percent more than a year ago but 3 percent less than the number on feed as of January 1, 1958. Marketing of grain-fed cattle from Illinois farms during the first quarter of 1958 totaled 257,000 head, 12 percent below the corresponding period a year ago. The total of 236,000 head of cattle placed on feed during the quarter was 11 percent above the number placed on feed during the same months of 1957. Of the total, 34 percent had been on feed less than three months, 60 percent had been on feed three to six months, and 6 percent had been on feed more than six months. It was reported that farmers intended to market 8 percent of the cattle on feed in April, 12 percent in May, 13 percent in June, and 67 percent at a later date.

Valuation of Building Permits

The total valuation of building permits for the twenty largest cities in Illinois for the first three months of 1958 was 15.5 percent below the corresponding period of 1957. The March valuation figure was approximately 12 percent above the same month in 1957, but 8 percent below March, 1956 (see chart). Chicago experienced the highest monthly building permit valuation ($35.3 million) in the past two years except for December, 1957.

The total building permit valuation for these twenty cities in 1957 increased 1.2 percent from 1956. Many of the individual cities showed substantial gains. Both Kankakee and Bloomington increased approximately 112 percent in 1957 from the previous year. Galesburg was the third highest with an advance of 71 percent, and Quincy reported an increase of 39 percent. On the other hand, East St. Louis experienced the worst decline with 62 percent. Belleville, Springfield, and Rockford dropped 40 percent, 35 percent, and 25 percent respectively below their building permit valuation levels of 1956.

ESTIMATED VALUATION OF BUILDING PERMITS IN 20 CITIES

Source: U. S. Department of Labor, Bureau of Labor Statistics.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$45,237[a]	1,144,819[a]	$491,716[a]		$16,571[a]	$13,468[a]
Percentage change from Feb., 1958	+87.9	−0.1	−8.4	+33	+17.2	+0.1
Percentage change from Mar., 1957	+13.6	−0.9	−5.5	+4	−2.2	−3.6
NORTHERN ILLINOIS						
Chicago	$35,324	872,607	$368,578		$15,234	$11,737
Percentage change from Feb., 1958	+91.7	+1.2	−9.0	+32	+17.3	+0.8
Percentage change from Mar., 1957	+12.0	−2.1	−4.0	+4	−2.2	−3.5
Aurora	$2,364	n.a.	$ 7,299		$ 66	$ 135
Percentage change from Feb., 1958	+1,009.9		−3.4	+74	+19.3	−6.5
Percentage change from Mar., 1957	+243.1		−2.4	+38	+0.8	−7.6
Elgin	$ 424	n.a.	$ 5,003		$ 42	$ 92
Percentage change from Feb., 1958	+131.7		−7.2	+58	+10.4	+1.2
Percentage change from Mar., 1957	−13.1		−8.4	0	+5.7	+3.8
Joliet	$ 471	n.a.	$ 8,535		$ 77	$ 81
Percentage change from Feb., 1958	−39.5		−10.3	+43	+12.3	−17.3
Percentage change from Mar., 1957	+2.8		−22.2	−1	−5.6	+3.9
Kankakee	$ 129	n.a.	$ 4,057		n.a.	$ 55
Percentage change from Feb., 1958	−7.9		−5.0	n.a.		+6.5
Percentage change from Mar., 1957	−56.0		−9.1			+16.1
Rock Island-Moline	$ 874	24,000	$ 9,199		$ 99[b]	$ 149
Percentage change from Feb., 1958	+3.1	−10.5	−10.7	n.a.	+11.4	+6.8
Percentage change from Mar., 1957	−16.6	+7.4	+5.9		−1.2	−5.1
Rockford	$1,021	45,329[c]	$15,540		$ 180	$ 214
Percentage change from Feb., 1958	+135.8	−2.9	−5.4	+30	+17.4	+7.3
Percentage change from Mar., 1957	+1.4	+1.8	−7.3	−2	−8.4	−6.6
CENTRAL ILLINOIS						
Bloomington	n.a.	8,594	$ 4,511		$ 71	$ 86
Percentage change from Feb., 1958		+2.7	−5.1	n.a.	+28.2	+7.3
Percentage change from Mar., 1957		+6.7	−5.0		+10.2	−4.3
Champaign-Urbana	$1,090	12,429	$ 6,856		$ 73	$ 98
Percentage change from Feb., 1958	+1,502.9	−1.2	−3.0	n.a.	+11.6	+10.1
Percentage change from Mar., 1957	+75.8	+14.1	−0.7		+8.4	−5.5
Danville	$ 797	12,054	$ 4,764		$ 47	$ 59
Percentage change from Feb., 1958	+884.0	−7.2	−8.1	+38	+8.6	+2.1
Percentage change from Mar., 1957	+532.5	+10.2	−12.4	−11	−13.2	+5.8
Decatur	$ 194	35,523	$ 9,847		$ 122	$ 104
Percentage change from Feb., 1958	−64.9	−0.0	−3.1	+59[c]	+19.9	+3.1
Percentage change from Mar., 1957	−81.8	+12.4	−9.4	+8[c]	−1.5	+5.1
Galesburg	$ 385	9,003	$ 3,933		n.a.	$ 30
Percentage change from Feb., 1958	+31.8	−3.8	−0.7	n.a.		−12.6
Percentage change from Mar., 1957	−31.0	+5.4	+4.4			−10.4
Peoria	$ 761	46,210[c]	$14,100		$ 208	$ 228
Percentage change from Feb., 1958	+65.4	−4.3	−1.6	+34[c]	+13.2	−13.3
Percentage change from Mar., 1957	+70.2	−11.6	−18.4	−7[c]	−7.0	−5.1
Quincy	$ 275	9,365	$ 4,091		$ 41	$ 59
Percentage change from Feb., 1958	−73.0	−13.7	−5.6	+32	+7.9	−13.0
Percentage change from Mar., 1957	+31.0	+1.6	−6.4	+12	+1.1	−5.5
Springfield	$ 871	35,424[c]	$10,622		$ 128	$ 212
Percentage change from Feb., 1958	+94.4	−0.6	−14.8	+36[c]	+16.9	−22.1
Percentage change from Mar., 1957	+115.1	+9.5	−17.9	−1[c]	+7.5	−10.0
SOUTHERN ILLINOIS						
East St. Louis	$ 148	12,409	$ 7,035		$ 142	$ 57
Percentage change from Feb., 1958	+76.2	−4.6	−4.7	n.a.	+14.0	−1.2
Percentage change from Mar., 1957	−52.3	+8.7	−12.5		−0.8	+6.1
Alton	$ 267	12,705	$ 3,897		$ 41	$ 32
Percentage change from Feb., 1958	+3,714.3	−1.6	−7.4	n.a.	+13.4	+4.2
Percentage change from Mar., 1957	−41.8	−11.5	−7.7		+4.1	+15.9
Belleville	$ 42	9,168	$ 3,848		n.a.	$ 39
Percentage change from Feb., 1958	+2.4	−11.7	−7.7	n.a.		+3.3
Percentage change from Mar., 1957	−52.3	+21.1	−7.1			−21.8

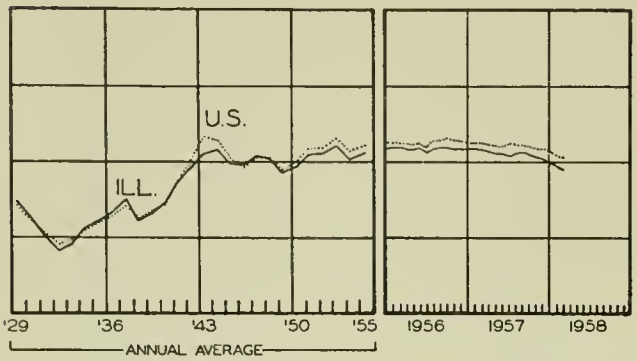
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for February, 1958. Comparisons relate to January, 1958, and February, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending March 7, 1958, and March 8, 1957.

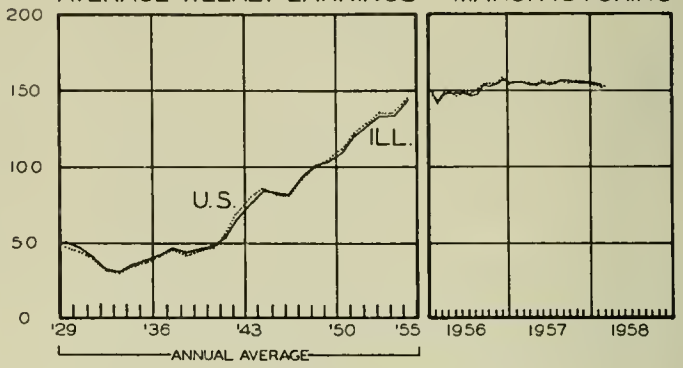
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

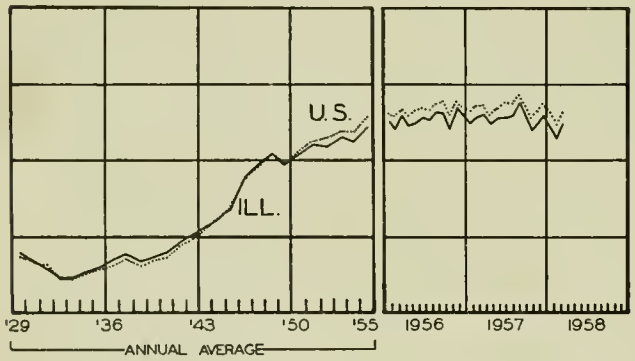
EMPLOYMENT MANUFACTURING



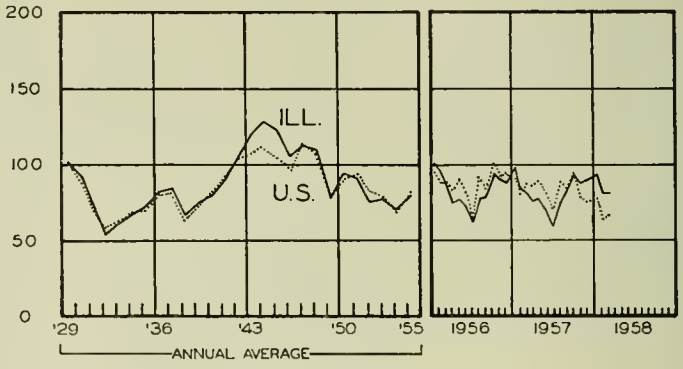
AVERAGE WEEKLY EARNINGS - MANUFACTURING



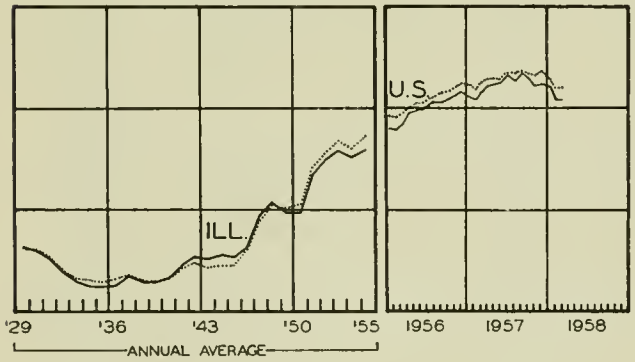
DEPARTMENT STORE SALES



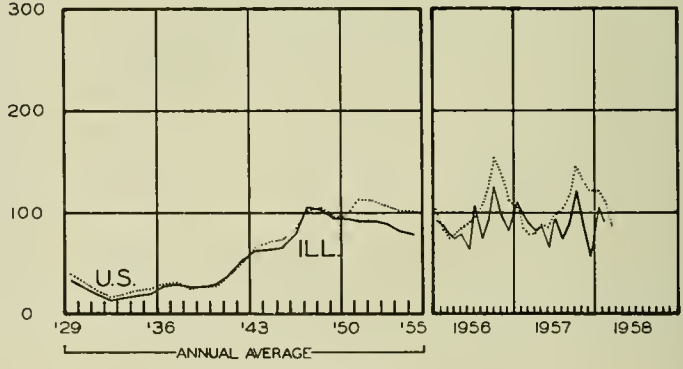
COAL PRODUCTION



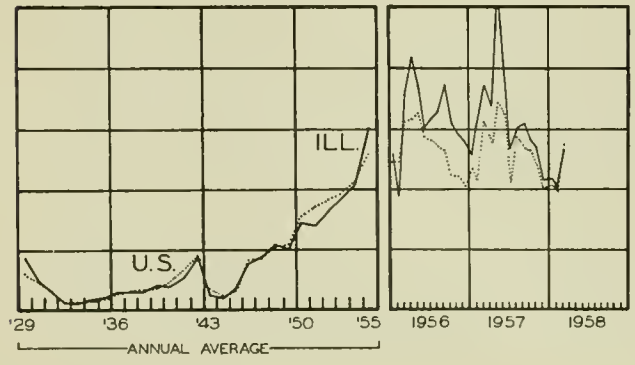
BUSINESS LOANS



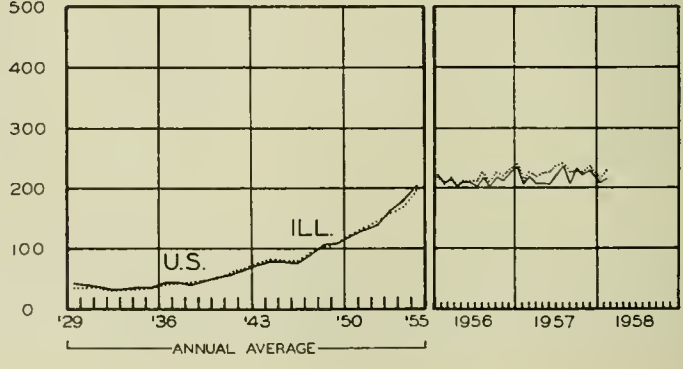
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MAY

Several favorable developments in business activity were evident in May. Unemployment declined slightly more than seasonally to 4.9 million. Production recovered a little from the April lows and improved in relation to year-earlier figures. Heavy construction awards continued to reflect the placement of large contracts, particularly for housing and highways. Department store sales ran above April but remained below May, 1957.

The most notable gains over April in production were the 10 percent expansion in automobile output and in steel tonnage. In both cases the improvement may reflect in part a change in inventory policy related to price or labor policies.

Construction Stays High

Outlays on new construction put in place rose seasonally in May to $4.1 billion from $3.7 billion in April. However, the total was down slightly from May, 1957, and spending on construction in the first five months of this year, at $17.7 billion, was less than $100 million above the corresponding period last year.

Private construction expenditures in May amounted to about $2.8 billion, 7 percent more than April but 4 percent below May, 1957. Spending on public construction of $1.3 billion was up 16 percent from April and 4 percent from May last year.

All major categories of private construction participated in the seasonal rise, and all showed little change or were down from May a year ago. Industrial building was off 33 percent over the year. Highways and government housing for military personnel were largely responsible for the advance in public spending.

Business Investment Declines

Business outlays for new plant and equipment in the first quarter of 1958 fell to an annual rate of $32.4 billion, $4.4 billion below the rate for the first quarter of 1957 and $1.6 billion below the level forecast by the Department of Commerce earlier in the year.

As a result of the more recent survey, it is now estimated that capital spending for all of 1958 will decline to $30.8 billion, a reduction of $1.3 billion from the previous forecast and a 17 percent drop from the record $37 billion spent last year. The latest forecast indicates a decline to a yearly rate of $29 billion in the fourth quarter of 1958.

All major industry groups, except public utilities, expect to spend less this year than in 1957. Railroads anticipate a reduction of one-half and manufacturing and mining companies plan cuts of one-fourth in their capital outlays. Declines in expenditures of 17 and 11 percent are forecast by nonrail transportation firms and commercial companies respectively. A slight increase is planned by public utility corporations.

Sales Up, Inventories Down

After seasonal adjustment, total manufacturing and trade sales rose $700 million in April to $52 billion, the first month-to-month increase since last summer. Roughly half the gain was in sales by wholesalers and half in retail sales, with durable and nondurable commodities sharing the advance. Manufacturers' sales fell $100 million below the revised March total of $24.9 billion.

Inventories of manufacturing and trade firms were cut $800 million in April to $87.7 billion on an adjusted basis. A reduction in stocks held by manufacturers accounted for $500 million of the decline, with wholesalers and retailers splitting the remainder. Nearly all of the adjustment came in durables.

A drop in new orders received by durable goods manufacturers brought total new orders $600 million below the revised March figure of $24.8 billion. Most of this was attributed to a fall from the high March rate of defense contract placement.

Installment Debt Off Again

Consumers repaid old installment debt in April at a faster rate than they incurred new obligations, although the total of the latter was slightly greater than in March. As a consequence, the amount of such debt outstanding fell to $32.9 billion, a decline of $123 million on a seasonally adjusted basis. A decline of $177 million in outstanding automobile paper, partially offset by a gain of $62 million in personal installment loans, accounted for most of the April installment debt change.

Noninstallment consumer debt rose slightly to $9.7 billion. The small increase was largely the net result of an addition of $60 million, after seasonal adjustment, to charge accounts and a reduction of $42 million in the total of single-payment loans.

Total consumer debt, at $42.7 billion, was off $99 million from March after allowance for seasonal influences. Compared with the end of April a year ago, the total was still up $1.4 billion.

RECENT DEVELOPMENTS IN THE STOCK MARKET · · By Robert W. Mayer · · Page 6

ILLINOIS BUSINESS REVIEW

Published monthly by the

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Pause on the Way Down

Some hopeful signs for business are noted in this month's "Highlights." The least anyone can say is that the economy is "plateauing out." This also happens to be the most that anyone can say. There is very little prospect of any substantial, lasting recovery.

The leveling off of the decline is due to one fact only: The recession temporarily outpaced its motive power. The extraordinary speed of the recession compressed a full year's decline into a half year. Where activity will go at the end of the current breathing spell depends on the underlying forces.

Not Just an Inventory Recession

The main factor speeding the recession was the inventory reversal. The $11 billion swing from accumulation to liquidation represents well over half of the $18 billion decline in gross national product recorded to this point. For this reason many hold the decline to be a typical inventory recession.

This interpretation supports an optimistic view of the outlook in two ways: First, inventory recessions are violent but quickly over; second, the necessary adjustments are already behind us, opening the way to a new advance. This view is not well founded in the facts.

There was nothing in the picture last summer to suggest the likelihood of so violent a shift in inventory policy. Prices were still moving up strongly, providing an incentive to accumulate rather than to liquidate. Inventories were not grossly excessive. Many observers felt they were about in line with sales; those who felt they were high thought they were only moderately so. Why, then, the reversal?

The answer to this question has to be found in another type of investment — business outlays for plant and equipment. It became clear last summer that business investment had overshot the need. Excess capacity had appeared in some industries and was looming ahead in others. It threatened the price structure by creating the prospect of intensified competition for markets that were no longer growing in real terms. It also made existing inventory holdings unnecessary; when capacity is sufficient to ensure that supplies will be obtainable on short notice, there is no need to maintain large stocks. In the truest sense, it has been a fixed capital recession all the time, even though its first manifestation was in inventory liquidation.

Moreover, there is little in the picture today to suggest that the need for liquidation is past. This idea derives partly from a confusion between *rate* of liquidation and *amount* of liquidation. An annual rate of $9 billion actually reduces stocks only $2.25 billion in one quarter. The decline in sales that has already occurred calls for liquidation of three or four times this amount — implying liquidation at a high rate through most of the year.

On the other hand, there is always a likelihood when liquidation reaches so high a rate as $9 billion that some letup may occur for a while. Something of this sort has been taking place in steel and autos. Steel buying has rebounded in the last two months in anticipation of mid-year cost and price increases. Similarly, auto manufacturers appear willing to keep stocks high going into the change-over period when they are operating without a labor contract. These are hardly enduring reasons for a more moderate rate of liquidation, but even temporary changes can help stabilize the economy for a while.

When the economy is stable, the pressure for liquidation tends to relax. On this proposition rests the hope for improved conditions in the months ahead. It makes probable a partial recovery, running to several billion dollars, by the third quarter. Nevertheless, it is a hope for just a transitory advantage. For the answer to future inventory policy, beyond a brief period of months, again has to be sought in other parts of the economy.

Business Investment Points Down

The really decisive aspect of the recession is the collapse of the investment boom. All indications point to a continued decline of plant and equipment throughout the year and into 1959. Surveys of planned capital outlays and of capital appropriations agree on this. (See summary of Commerce-SEC survey on page 1.)

Analysis of past business cycles and of stock-flow relationships suggest that the surveys are still optimistic. The McGraw-Hill survey, for example, found that business plans for new investment stabilized near $30 billion in 1959 and held steady at that level through 1961. The businessmen reporting these plans expected sales to increase 20 percent from 1958 to 1961. If the sales increases do not materialize, investment would be lower; a minimum of $22 billion was visualized. But even this "minimum" reflects the attitudes of long-term optimism that still prevailed early this year. It is in no sense a realistic floor for capital outlays.

The capacity-demand situation is worsening this year. With capital outlays continuing above $30 billion, capacity is growing fast; and with demand lower, it is growing excessive even faster. The imbalance that brought on the decline will be aggravated as the gap between capacity and demand widens. It is spreading to the industries that have not been seriously affected to date, primarily the utilities, and cutbacks in these will keep the recession going. The decline of investment is therefore likely to be fully as large in the coming year as in the year just past.

With fixed investment setting a downward course, its decline will tend constantly to re-establish the need for inventory liquidation. The logical conclusion is that we are in the early stages of a major cyclical contraction. This reverses the earlier postwar situation; now recov-

(Continued on page 8)

ILLINOIS — MUSICAL INSTRUMENT CAPITAL

Man's preoccupation and fascination with musical instruments stretches back to prehistoric times. A variety of devices have been developed to satisfy his curiosity concerning the tonal qualities of sound. Although musical instruments have taken innumerable crude and weird forms, most have been adapted from three principal types: percussion, strings, and forced air.

The refinements in music beginning with the Renaissance led to the development of a body of expert handicraftsmen making fine instruments. Many of their construction techniques remain in use today, although modern technology is playing an increasingly larger role.

Production techniques of the nineteenth century ushered in the concept of musical self-expression as instruments became more accessible at lower costs. Before this time the limited number of instruments were used by only a few skilled musicians.

As the musical instrument market enlarged, the piano became a favorite, perhaps because of its usefulness as an accompanying instrument as well as for solos, and because of its wide range of sound. Thus the piano displaced the harpsichord, popular from the sixteenth to the eighteenth century, as well as the clavichord.

Today, piano and organ manufacture make up the major portion of the industry, together accounting for 76 percent of the value of shipments. Of the two, piano manufacture is the larger, although the electric organ has reduced the difference in recent years.

Illinois — National Piano Capital

Illinois is the national leader in the production of pianos, accounting for nearly one-third of the total value added by manufacture and one-third of the value of shipments. Although exact figures are not available, the State is believed to have assembled approximately 60,000 of the 193,000 new pianos shipped in 1956. Moreover, Illinois appears to be growing as a piano-making center; its share of the national value added by manufacture of pianos rose from 26 percent in 1947 to 32 percent in 1954.

Seven of the nation's 28 piano manufacturing establishments, with a product value of more than $20 million, are located in Illinois. These establishments employ about 1,400 persons, of which 1,100 are production workers. All of the Illinois piano firms are nationally known. Included among them are Conover-Cable, W. W. Kimball, Gulbransen, Story and Clark, Starck, and Wurlitzer. The Rudolph Wurlitzer Company of Chicago is reputed to be the nation's largest piano producer.

Postwar Industry Trends

Despite the postwar rise in TV, hi-fi, and phonographs, the popularity of musical instruments has grown faster than the population. The American Music Conference estimates that the number of musical instruments owned in the United States increased more than 70 percent from 17 million in 1936 to 29 million in 1957, and that the number of amateurs playing doubled in the same period to 28.5 million. Today nearly seven out of ten amateur musicians play the piano. Following in order of popularity are the guitar, violin, woodwinds, brasses, ukulele, organ, and harmonica.

The piano industry declined after reaching an all-time peak in 1923 (including player-pianos which then accounted for 70 percent of industry output), but began to recover in 1933 after introducing the cheaper small upright piano known as the spinet. This trend has continued in the postwar period as shipments of the smaller spinets (under 37 inches high) rose 31 percent to 92,716 units between 1947 and 1954, whereas larger spinets and grand pianos declined.

Another postwar trend is the growing demand for electronic organs, which are much smaller than pipe organs. Before World War II, the Hammond Instrument Company of Chicago was alone in the electric organ field, having originated it in 1935. The volume of shipments jumped from 8,800 to 70,000 in the decade after the war with a corresponding rise in wholesale value from about $10 million to $52.6 million. During the same period, the number of electronic organ manufacturers grew to 12, with many coming from the piano industry. Despite the rapid gains of electric organs, piano shipments have continued upward. Illinois has remained a leading organ-making state; in 1954 it had more establishments than any other state (7 of the total 31).

Retail volume of all musical instruments in the postwar era has jumped from $250 million in 1946 to $420 million in 1956. American instrument makers also have extended their foreign markets. Exports mushroomed from a mere $3 million a year before the war to $38 million in 1956. Imports, which slightly exceeded exports in the prewar years, increased to $21 million in 1956.

Center for Other Instruments

Illinois is also a flourishing center of manufacture for many types of musical instruments other than pianos and organs. According to the *1954 Census of Manufactures,* only New York, with 28 establishments making miscellaneous instruments, had more than Illinois, with 26.

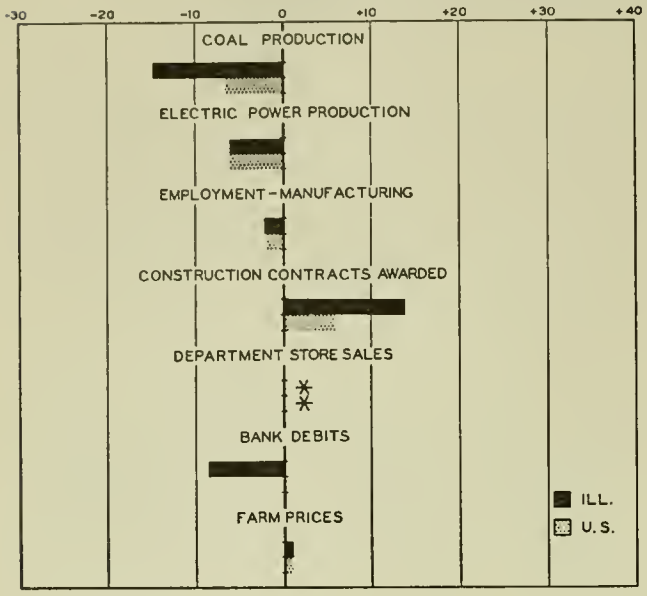
Most of these instruments are made in Chicago by firms nationally and internationally known. For example, Lyon and Healy Company is said to be the only harp manufacturer in the world. The Slingerland Drum Company is believed to be the world's largest firm exclusively devoted to making drums and has one of the five or six drum plants in the world. J. C. Deagan, Inc., paces the nation in production of chimes, xylophones, and marimbas. Chicago is the center of manufacture for guitars and other fretted instruments, with the Harmony Company and the Kay Instrument Company being among the nation's leading firms. Outside of Chicago, the Wurlitzer Company's DeKalb plant is the nation's largest piano accordion producer.

Having withstood the assaults of the passive forms of entertainment characteristic of the past decade (television, for example), the prospects of the industry seem encouraging, especially when coupled with the expected population growth and increasingly widespread musical instruction being made available for younger age groups.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1958, to April, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	April 1958 (1947-49 =100)	Percentage change from Mar. 1958	Percentage change from Apr. 1957
Electric power[1]	201.2	− 5.9	− 4.0
Coal production[2]	64.3	−14.9	−18.1
Employment—manufacturing[3]	93.1	− 2.1	−12.9
Weekly earnings—manufacturing[3]	153.2[a]	+ 0.9	− 1.2
Dept. store sales in Chicago[4]	115.0[b]	− 7.3	− 4.2
Consumer prices in Chicago[5]	127.0	+ 0.2	+ 4.1
Construction contracts awarded[6]	301.0	+13.9	−10.9
Bank debits[7]	173.2	− 8.6	− 1.4
Farm prices[8]	89.0	+ 1.1	+ 9.9
Life insurance sales (ordinary)[9]	299.4	+ 3.4	+ 2.0
Petroleum production[10]	123.6	− 5.8	+ 3.1

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] March data; comparisons relate to February, 1958, and March, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	April 1958	Percentage change from Mar. 1958	Percentage change from Apr. 1957
	Annual rate in billion $		
Personal income[1]	342.8[a]	+ 0.2	+ 0.5
Manufacturing[1]			
Sales	297.6[a]	− 0.4	−13.0
Inventories	51.5[a, b]	− 1.0	− 1.9
New construction activity[1]			
Private residential	15.5	+10.6	− 0.7
Private nonresidential	15.3	+ 2.3	− 2.4
Total public	13.2	+18.9	+ 4.6
Foreign trade[1]			
Merchandise exports	18.7[c]	+15.8	−27.3
Merchandise imports	13.3[c]	+15.3	− 2.1
Excess of exports	5.4[c]	+16.8	−55.7
Consumer credit outstanding[2]			
Total credit	42.7[b]	+ 0.2	+ 4.0
Installment credit	32.9[b]	− 0.2	+ 4.4
Business loans[2]	30.2[b]	− 2.4	− 3.7
Cash farm income[3]	25.3[c]	− 1.7	+12.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	126[a]	− 1.6	−12.5
Durable manufactures	133[a]	− 1.5	−16.9
Nondurable manufactures	124[a]	0.0	− 4.6
Minerals	109[a]	− 3.5	−16.8
Manufacturing employment[4]			
Production workers	92	− 1.3	−12.7
Factory worker earnings[4]			
Average hours worked	96	− 0.8	− 3.8
Average hourly earnings	159	0.0	+ 2.9
Average weekly earnings	152	− 0.8	− 1.0
Construction contracts awarded[5]	291	+ 5.9	+ 3.7
Department store sales[2]	131[a]	0.0	0.0
Consumer price index[4]	124	+ 0.2	+ 3.5
Wholesale prices[4]			
All commodities	119	− 0.3	+ 1.9
Farm products	98	− 2.6	+ 8.1
Foods	111	+ 0.6	+ 6.8
Other	126	− 0.1	+ 0.2
Farm prices[3]			
Received by farmers	98	+ 1.0	+10.1
Paid by farmers	122	0.0	+ 3.4
Parity ratio	87[d]	0.0	+ 6.1

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for March, 1958; comparisons relate to February, 1958, and March, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	May 31	May 24	May 17	May 10	May 3	June 1
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,275	1,203	1,195	1,042	1,058	1,606
Electric power by utilities...mil. of kw-hr	11,000	11,316	11,257	11,315	11,251	10,936
Motor vehicles (Wards)...number in thous	82	105	104	96	96	100
Petroleum (daily avg.)...thous. bbl	6,242	6,256	6,262	6,250	6,227	7,418
Steel...1947-49 = 100	91	88	82	77	75	131
Freight carloadings...thous. of cars	530	571	561	535	533	672
Department store sales...1947-49 = 100	116	128	126	138	132	117
Commodity prices, wholesale:						
All commodities...1947-49 = 100	119.3	119.3	119.5	119.3	119.3	117.1[a]
Other than farm products and foods...1947-49 = 100	125.2	125.2	125.4	125.4	125.6	125.2[a]
22 commodities...1947-49 = 100	86.3	85.7	85.5	84.4	84.1	88.7
Finance:						
Business loans...mil. of dol	29,790	29,928	30,093	30,129	30,185	31,077
Failures, industrial and commercial...number	278	337	327	279	336	225

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for May, 1957.

RECENT ECONOMIC CHANGES

Consumer Prices

The consumer price index continued to move upward during April, registering the eighteenth advance in the last twenty months. Since August, 1956, when it stood at 116.8 percent of the 1947-49 average, the index has failed to rise only in October and December of last year, when it remained steady.

The latest increase pushed the index up from 123.3 in March to 123.5 in April. Most of the advance resulted from a rise of seven-tenths of 1 percent in food prices, which make up about 30 percent of the entire index. Prices for housing, medical care, and personal care were also higher during the month, whereas transportation and apparel prices declined.

Since April, 1957, the consumer price index has risen 3.5 percent from 119.3 to its present level. As indicated by the accompanying chart, food prices, up about 7 percent, accounted for the greatest portion of the year-to-year advance in the over-all index.

The latest rise in prices cut further into the buying power of production workers. However, reduced hours of work also contributed greatly to the decline. Weekly spendable earnings for a worker with three dependents averaged $73.67 in April, about a half-dollar lower than in March and 65 cents lower than a year ago. With the latest price rise taken into account, the purchasing power of these net earnings dropped to 115.4 percent of the 1947-49 average, compared with 120.6 percent in April, 1957.

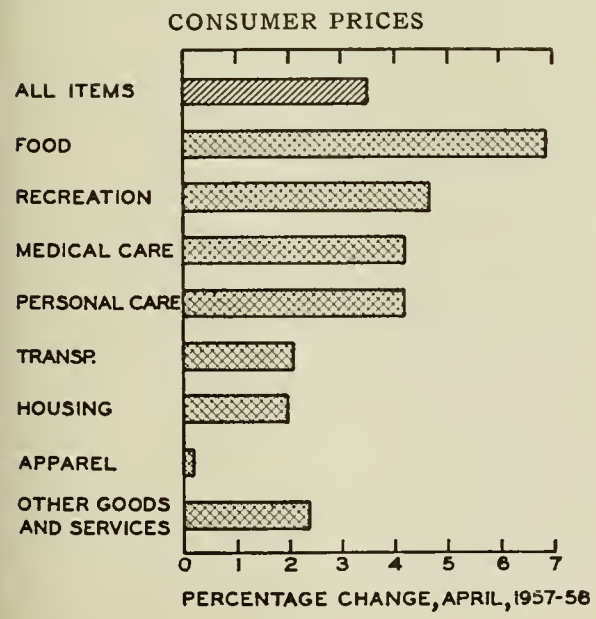
Corporate Securities

New security offerings by corporations amounted to $3.3 billion in the first quarter of 1958, close to the record total of $3.6 billion floated in the first three months last year. However, offerings by manufacturing companies fell sharply to $576 million, less than half the $1.3 billion of the 1957 first quarter. This drop reflected declining plant and equipment expenditures and lower working capital requirements due to reduced production schedules.

Offerings by communications companies showed the greatest advance over the year, rising from $433 million in the opening quarter of 1957 to $922 million in the first three months of this year. Electric, gas, and water companies, along with transportation companies, also increased their offerings, whereas other industries generally decreased them.

The SEC also reported that $2.6 billion of the proceeds from all securities offered in the first quarter of the year were earmarked for capital expenditures. Three-fourths of the money raised for such purposes went to utilities, including communications companies.

Debt issues accounted for $2.8 billion of the new securities in the first quarter this year; equity issues totaled $469 million. During the same period, the average yield on industrial, financial, and utility bonds offered publicly dropped to 4.05 percent, compared with 4.89 percent in the previous period and 4.52 a year ago.



Source: U. S. Department of Labor.

Automobile Production and Sales

Passenger car production rose 10.4 percent in May to 349,474 units but was still 34.3 percent below the 531,433 turned out in May of last year and the lowest May total since 1948. In the first five months of this year, the industry turned out about 1.9 million cars, 33.8 percent less than the 2.9 million units assembled in the same period of 1957.

Dealers experienced their best month of the year in May as they sold 394,000 new cars, a rate of 15,150 per day. This was above April sales of 362,800 but was still 26 percent below the 532,000 new cars sold in May, 1957, a daily average of 20,460. Through April of this year, dealers sold about 1.8 million American-built cars, down 28.2 percent from last year's total of about 2.5 million new cars sold in the same five-month period.

As sales surpassed output in May, dealers were able to trim their stocks of unsold new cars further, and inventories fell to 755,000 units, about a 50-day supply at current selling rates.

Unemployment

Unemployment fell by 200,000 between mid-April and mid-May to 4.9 million, according to the monthly joint report by the Commerce and Labor departments. The seasonally adjusted rate of unemployment dropped to 7.2 percent last month, compared with 7.5 percent in April and 4.1 percent in May, 1957. The reduction last month represented the first decline in the rate since it began climbing last summer.

Employment during the month increased by 1.2 million mainly as the result of seasonal factors. The greatest single expansion occurred in agriculture as housewives and students, who had previously been outside the labor force, pushed farm employment up by about 710,000. An increase in construction activity accounted for about half of the 440,000 advance in nonfarm employment.

At the same time, however, manufacturing employment continued to decline more than seasonally, falling by 67,000 during the month. The latest drop, two-thirds of which was in durable goods industries, reduced total manufacturing employment to 15 million in May.

Census data, in thousands of workers, are as follows:

	May 1958	*April 1958*	*May 1957*
Civilian labor force	68,965	68,027	67,893
Employment	64,061	62,907	65,178
Agricultural	6,272	5,558	6,659
Nonagricultural	57,789	57,349	58,519
Unemployment	4,904	5,120	2,715
Seasonally adjusted rate	7.2	7.5	4.1

RECENT DEVELOPMENTS IN THE STOCK MARKET

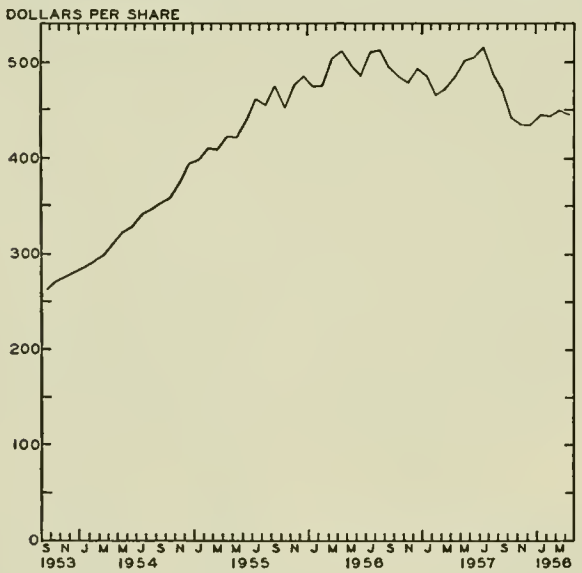
ROBERT W. MAYER, Professor of Finance

The course of events in the stock market during recent months has been to many people one of the most puzzling aspects of the current recession. To some extent the layman's confusion can be explained by the fact that overdramatization of market news may have given him a distorted impression of what has actually happened. Even the experts, however, who have more accurate knowledge of what has happened, find it difficult to interpret the events and especially what they presage.

To put the matter in perspective, it is helpful to recall that stock prices moved upward on a broad front and almost without interruption from the fall of 1953 to the spring of 1956. (See Chart 1.) This bull market, which carried the Dow-Jones industrial average from 261 to 521, an increase of 100 percent, was longer than the rise of 1945-46, steeper than the advance of 1949-53, and more pervasive than either. It appears, furthermore, to have done more than any other price movement since the days of the Great Depression to restore the confidence of speculators.

Widespread concern about this and other aspects of inflation brought on the "tight money" policy under which the discount rate of the New York Federal Reserve Bank was gradually raised from 1½ percent in March, 1955, to 3 percent in February, 1956. The effect of tightening interest rates was sharply felt in the bond market by early 1956, and after April stocks also discontinued their advance. They fluctuated for several months with a slightly downward trend but then, in the spring of 1957, they began another rapid rise. This renewed symptom of inflation revived the general alarm and brought further tightening of interest rates. The Dow-Jones industrial average reached an all-time high of 525 on July 12; but the decline during the next few weeks was not so precipitate as to make it clear that the stock price boom was at an end, and on August 23 the New York Federal Reserve Bank raised its discount rate to 3½ percent.

CHART 1. DOW-JONES INDUSTRIAL AVERAGE



Source: U. S. Department of Commerce, *Survey of Current Business,* various issues.

Prices Based on Investors' Attitudes

It is the course of events since the July peak with which we are concerned here. Even the most casual newspaper reader or television viewer could hardly have been unaware, during the summer of 1957, that stock prices were falling. Indeed, several factors — running all the way from the optical illusion produced by index charts, which omit the bottom 90 percent of the scale, through black headlines on newspaper front pages to excited radio and television commentators' voices emphasizing the extreme cases — combined to give the man on the street the impression that the market was undergoing another 1929 crash. The decline which took place between July and October was actually only about 20 percent, the Dow-Jones industrial average being 420 at the close of the market October 22; and since the latter date stock prices have fluctuated within a range of less than 10 percent — from about 425 to about 465.

The smallness of the general decline and the fact that it has not continued seem to some observers to have considerable significance. Evidence of economic recession appears to abound. Not only do corporate earnings and dividends continue to decline; the more fundamental economic indicators of output and employment also move adversely. But the stock market continues to reflect optimism or at least the absence of pessimism. On May 5 the leading article on the front page of the *Wall Street Journal* was headlined "Profits Plunge: Earnings Drop Deepens; Little or No Rise Is Likely This Quarter." What did the stock market do that day? It made a new high for the year!

This manifestation of confidence that the future movement of stock prices will be upward seems to be based, not on interpretation of recognized economic indicators, but on some sort of intuitive feeling. The widespread acceptance of a long-run prospect that government monetary and fiscal policy will tend to be inflationary undoubtedly plays an important part in speculators' psychological attitudes. And this is not all. The factor of strategy — competitors' efforts to anticipate and outwit each other — which in some degree influences every individual's decisions in any kind of social activity from games to business to politics to war, is especially dominant in stock speculation in a "confident" market.

The phenomenon was once described by John Maynard Keynes, himself an extraordinarily successful securities speculator, as being like

> those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of choosing those which, to the best of one's judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be.

More recently, Benjamin Graham, one of the country's

leading securities analysts, put the matter bluntly when he said that present-day stock purchasers are buying "exogenous hope" rather than "endogenous value." He is no foe of speculation based on anticipation of fundamental economic developments, but he sees today's investors "speculating on the *price* of the stock rather than on the stock, the company, the industry, itself." There is a startling parallel between the attitude he describes and the New Era philosophy of the late 1920's.

Variations in Price-Income Relations

Behavior of individual stocks, and even of industrial groups, has of course been far from uniform since July. The impact of the decline was felt sharply in the area of public transportation, rail stocks dropping 26 percent and airline stocks 31 percent. More than average recession also hit the mining and textile industries, stocks sinking about 31 percent in both cases. On the other hand, certain industries felt the decline only lightly or not at all. Food stocks dropped only 10 percent, drugs 13 percent, retail merchandising 8 percent, and installment financing 5 percent; tobacco stocks actually rose 5 percent. Stocks in the automobile, chemical, oil, paper, steel, and television industries underwent about average declines as did those of investment trusts, the latter being not unexpected since their holdings consist largely of diversified portfolios of industrial stocks.

Since the end of the general decline in October the "sidewise" movement, too, has not been characteristic of all industry groups; and in a number of cases the fluctuation has been at considerable odds with what might ordinarily be expected from the trends of recent earnings. Railroad stocks, with earnings down 78 percent, continued their decline to the end of the year — to a point almost 40 percent below the July peak — but since then have had an erratic recovery which has carried them back to about the October level.

Stocks of certain other industries — for example, mining, railway equipment, steel, textiles — have had somewhat similar experience; earnings declines in these groups ranged from 30 to 58 percent. Chemical, petroleum, and rubber stocks have stayed at about the October level without the intervening dip, although earnings declined about one-third in each case. Another pattern is shown by auto and accessory industry stocks with earnings down 52 percent; they declined well below the October level and have made little or no recovery.

In those few industries where current earnings are above last year's, even slightly, stocks have rebounded almost without exception not merely to the October level but even above the July peak. This is true, for example, of the drugs, food products, and installment finance groups, in which earnings increases were up less than 5 percent. Good performances were also turned in by groups whose earnings showed better advances, such as tobacco (up 32 percent) and utility stocks (up 11 percent).

Manifestations of the most pronounced optimism, of course, are to be found in the prices of stocks which are popularly considered to have outstanding growth potential. As indicated by the following illustrations, the high price/earnings ratios and low dividend yields on these stocks are phenomenal. These examples are not representative of the whole market, of course, but they focus attention upon the fact that in some areas at least, stock prices are considerably above what is generally regarded as a normal relation to current income.

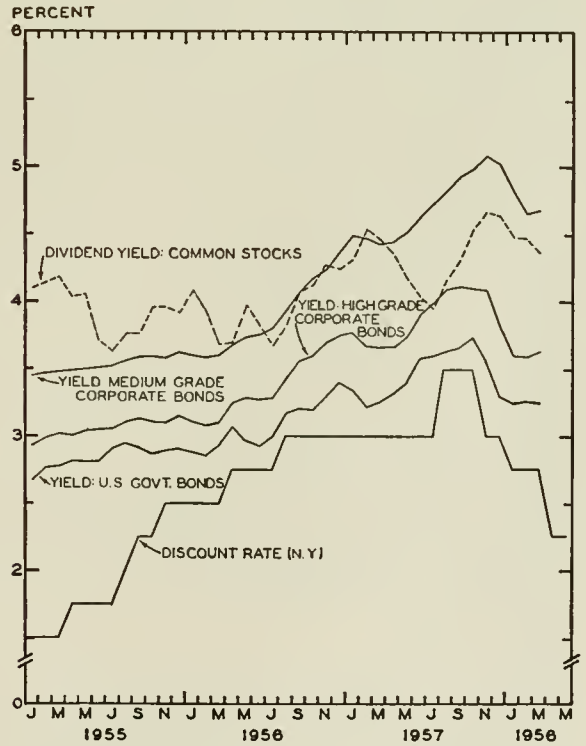
	Price/ earnings ratio	*Cash dividend yield*
International Business Machines	44	0.8%
Dow Chemical	44	2.2
Minnesota Mining & Manufacturing	34	1.5
Du Pont Chemical	29	3.4
Monsanto Chemical	29	3.2
Hercules Powder	27	2.0
Scott Paper	25	3.1
Merck & Company	21	2.3
Shell Oil	21	2.7

Stock Yields and Interest Rates

One aspect of the general situation in the stock market seems to deserve special consideration: the reaction of the market to the efforts of the Federal Reserve to curb inflation, and later recession, through manipulation of interest rates. This reaction is best observed by comparing movements in the dividend yields on common stocks with movements of interest rates in the capital market. In the structure of long-term interest rates, the yield on United States government bonds is generally taken to be basic, with the yields on high-grade corporate bonds, on medium-grade corporate bonds, and on common stocks ranging above in that order. Chart 2 depicts the recent movements of these yields, with the discount rate of the New York Federal Reserve Bank shown below to indicate the implementation of the anti-inflation-recession policy.

Even in its initial stages, the tight money policy, although it brought on a gradual rise of bond yields, had little effect on the dividend yields of stocks. Rising dividends continued to be discounted at about the rate prevailing from late 1953 (in a range a half percent or so above the yield on medium-grade bonds), and stock prices moved upward with only brief and inconsequential

CHART 2. BOND AND COMMON STOCK YIELDS



Source: Federal Reserve Board, *Federal Reserve Bulletin*, various issues.

interruptions. During 1956 the stock market appeared to be responding to the higher interest rates, because a moderate downward movement of prices took place; and in the latter part of the year stock yields rose as rapidly as bond yields. In the spring of 1957 bond yields continued to rise, but stock prices soared up at such a rate that their yields moved sharply downward.

The July-October price slump brought an increase of stock yields, of course, and the easing of money rates during the ensuing six months has effected a decline of bond yields which more or less paralleled falling stock yields. But stock yields have been in a range scarcely above that on high-grade bonds and *actually below that on medium-grade bonds.* How is this phenomenon to be interpreted? The conclusion seems inescapable that even at their present level, stock prices represent a discounting of something else than continuation of current dividends — anticipation either of markedly increased dividends or of substantial capital appreciation. If economic evidence justifying such optimistic anticipations soon becomes manifest, the current level of stock prices may be warranted; if not, the market may well suffer a decline which would make last summer's look small by comparison.

This observation is somewhat like a "severe thunderstorm warning" issued by the weather bureau. It is not a prediction that a storm will strike any particular place nor even that a severe storm is certain to develop at all, but only a caution that meteorological conditions are ripe for trouble. To which we would add, ruefully, that no matter how great the difficulty of predicting weather, it is nothing compared with the difficulty of predicting human behavior, especially the way of a man with his broker.

Pause on the Way Down

(Continued from page 2)

cries will tend to be only minor interruptions of a longer downtrend.

No Rescue By Consumers

In earlier postwar recessions, the economy was pulled out of the decline by recoveries in autos and housing. There are reasons for thinking this cannot happen again. Foremost among these are the accumulations of stocks of houses and durable goods in use. Matching these accumulations is an unprecedented growth in consumer debt — amounting since 1945 to almost $40 billion on short-term consumer credit and about $90 billion on small residential properties.

The saturation of the auto market is reflected in the 30 percent decline in sales from early 1957. There are theories attributing this to consumer psychology and to car design. Both kinds of theory have little validity. They overlook the fact that auto demand has always been volatile. Calculations based on changes in income and asset position account for practically all of the decline. This leaves hardly any room for psychological explanations, and explains why such maneuvers as the "Auto Buy" campaigns are ineffectual. There is now no basis for expecting any substantial recovery so long as the economy is declining.

The housing market, on the other hand, has received another shot in the arm. All through the postwar period, policies of stimulating housing demand through low interest rates and long repayment periods have been followed. Now these policies are being pushed into the small, marginal area remaining. How long building can be supported in this way is a matter of doubt, but it probably has to be measured in months, not years.

All the moves taken so far to stimulate housing fall in the category of postponing the inevitable. They stimulate building by increasing the number of families able to afford homes in good times. But stimulating a higher degree of market saturation in this way will not prevent the decline and may ultimately make it a little more severe. The recession has already had a marked adverse effect on family formation. Families who lose their incomes through unemployment cannot even afford the homes they now have. After the temporary stimulus is spent, the decline will be resumed.

Some consumers undoubtedly remain in a position to act — not only in respect to durable goods and houses but to increase expenditures in general. However, the data indicate that they are now spending somewhat more and saving somewhat less than past relationships call for under the circumstances. This is probably due in large part to the squeeze on incomes resulting from the abnormally high food prices prevailing in recent months. With family budgets taxed by higher expenditures for food, savings have already been moderately depressed. Hence, hardly anything in the way of higher spending can be expected of consumers as a means of rescuing the economy from depression.

Last Hope?

The only hope for a real stimulus lies in new government programs. That is the reason the government should act, and to make such action most effective, it should be undertaken immediately, in these months of leveling or moderate recovery, so that its effects will not be offset. The federal government, however, has decided on a do-nothing policy. Both the Administration and the Democratic leadership in Congress have been sold on holding down the deficit. Federal expenditures will probably rise by several billions, but only against determined efforts to keep the increases at a minimum.

There is a tendency in discussions of government expenditures to exaggerate by double counting. Pay rate increases are counted both as real personal income and as higher military or other expenditures, transfer payments both as government spending and consumer spending. The fact is that all payments of this kind operate on the economy only through their effects on consumers' incomes and expenditures. The deficit as such has no separate effects from increases in expenditures and reductions in taxes.

State and local government programs are currently being accelerated somewhat. This is evident in the placing of contract awards for new construction. Unfortunately, this acceleration is drawing down the backlog of planned projects. Its effects will be temporary unless planning for the future is stepped up to match the near-term acceleration in the rate of activity. There is no evidence that this is being done. Therefore the current spurt is likely to end in a relapse.

The increases in government expenditures now programed are nowhere near enough to compensate the prospective declines in private investment. Unless something new and important enters the picture, the recession will be resumed. The decline during the year ahead may approach the same order of magnitude as that which has already occurred. This would imply a corresponding rise in unemployment — to an adjusted total of about 7 million in the summer of 1959 — and the recession will be continuing at that point. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Personal Income

Despite increases in unemployment and cutbacks in the workweek, average income rose slightly in 1957, according to estimates released by the Bureau of the Census. The average (median) income of men earning some income was estimated at $3,700. This was a gain of approximately $75, or 2 percent, over 1956. Comparatively, this change was considerably smaller than the rise of $250 between 1955 and 1956. The average (median) income among women with income was $1,200, a gain of about $50 over the 1956 average.

The slight over-all increase in income was largely attributed to the continued rise in wage rates in most industries. Among year-round workers, the increase in income was comparatively sharp in 1957. Men who worked for 50 weeks or more had an average income of $4,700, a gain of about $260, or 6 percent, over 1956. Women who worked full-time had an average income of $3,000 in 1957, which was a gain of about $175 over the previous year, also near 6 percent.

Corporate Bond Study

The National Bureau of Economic Research has just released a report entitled *Corporate Bond Quality and Investor Experience,* written by W. Braddock Hickman, a member of the research staff. The material for the report was taken from a complete census of large issues of corporate bonds offered or outstanding between 1900 and 1944 and a sample of small issues. Besides quality ratings and other loan characteristics, the records on which the study was based include for each issue the default experience, rate of realized yield, and rate of capital gain or loss.

An unusual finding is that on the average, low-grade corporate bonds yielded better net returns (after default losses and so on) than bonds of higher quality during more than forty years of corporate bond financing. Investment specialists, as well as investors, tended to overvalue the high-grade bonds and undervalue the ones having a greater risk.

One of the most significant of the findings concerns defaulted issues. Realized yields in the periods from offering to default were consistently below those in the periods from offering to extinguishment. Capital losses were general on bonds sold at default, whereas capital gains were equally general on bonds purchased at default and held to extinguishment.

States' General Expenditures

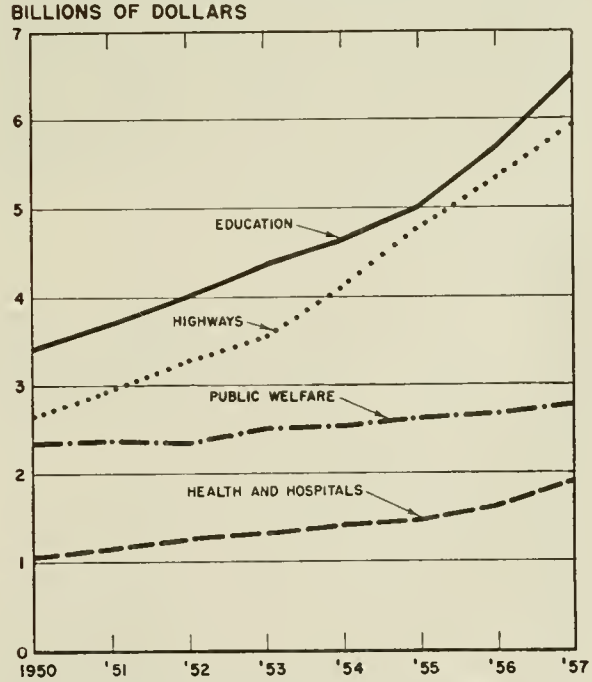
In fiscal 1957, general expenditures of the 48 states rose to a record high of $21.1 billion, an increase of $2.2 billion, or 11.8 percent, over the previous year. These increases appeared in all except four states — Indiana, Kansas, Maine, and New Jersey. Increases of more than 25 percent occurred in three states — Connecticut, Nevada, and Pennsylvania.

The four major functions requiring state expenditures — education, highways, public welfare, and health and hospitals — accounted for this increase (see chart). The states spent $6.6 billion for education, an increase of 15.4 percent over fiscal 1956. The major portion of this outlay went to local governments for support of public schools. State expenditures for highways were slightly less than $6.0 billion, 11.3 percent more than in the previous year. About two-thirds of this amount was spent for construction and maintenance of regular highway facilities, and the rest was distributed among local highway projects and state toll roads and bridges. Expenditures for public welfare totaled $2.8 billion, or just slightly more than in 1956, whereas outlays for health and hospitals rose 18.9 percent to a total of $1.9 billion in fiscal 1957.

Construction Contract Statistics

The F. W. Dodge Corporation recently announced a change in their construction contract statistics. At the beginning of 1958, they modified their method of handling downward adjustments in valuation, floor area, and dwelling units for the statistics they reported in earlier months of the year. This modification will eliminate downward revisions affecting the figures for the month in which the adjustments are made; however, the downward revisions will still be reflected in the cumulative-to-date statistics. Upward revisions in contracts for earlier months in the year will continue to be included in the statistics for the current month. The new procedure is designed to accomplish the compilation of accurate year-to-date figures and to eliminate the possibility of showing a minus construction contract figure for any month. However, users of the monthly figures will have to allow for the bias in comparison with the same month of last year, and in this connection, the month-to-month changes in the year-to-date figures take on added significance.

STATE GENERAL EXPENDITURES FOR SELECTED FUNCTIONS, 1950 TO 1957



Source: Bureau of the Census, *Compendium of State Government Finances in 1957,* p. 3.

LOCAL ILLINOIS DEVELOPMENTS

With few exceptions the major indexes of Illinois business activity declined in April from the previous month and remained below the level of business activity of April, 1957. Coal production declined 15 percent from the March level and was off 18 percent from the April, 1957, figure. Bank debits decreased 9 percent from the previous month but were only 1 percent below April of a year ago. Manufacturing employment was down 2 percent from March but was 13 percent under April, 1957.

Construction contracts awarded increased 14 percent over the previous month, but they still were 11 percent below April of a year ago. Consumer prices continued to rise slightly from March and remained about 4 percent above April, 1957. Farm prices were up 1 percent from the previous month, and up 10 percent from April, 1957. Prices and life insurance sales were the only indexes that showed increases over both March, 1958, and April, 1957.

Growth in Illinois Government

According to a recent check of payrolls, the size of the Illinois state government has continued to grow the last few years. In March, 1958, the most recent month for which figures are available, the state payroll totaled 39,691 persons and slightly more than $13 million. (These figures do no include personnel of state colleges and universities.) The March data show an increase of 6,507 persons, or 16 percent, and $3.6 million, or 39 percent, from March, 1954. The following tabulation shows this growth tendency.

March	*Number of employees*	*Payroll ($000)*
1954	33,184	$ 9,363
1955	34,653	9,948
1956	36,025	10,556
1957	37,123	11,150
1958	39,691	13,009

The Secretary of State's Office, and the Departments of Public Welfare, Public Safety, and Public Works and Buildings have experienced the largest increases since March, 1954. Together these components of state government employed approximately two-thirds of all state personnel in March, 1958. The number of persons on the Governor's personal office staff and in the State Auditor's Office has declined from a total of 463 persons in March, 1954, to 409 persons in March, 1958. The payrolls of the other four elected state officials show increases of 92 persons from March, 1954.

Retail Sales

Total estimated retail sales for the eighteen largest trading centers in Illinois during the first three months of 1958 amounted to $1,559 million, a decline of $88 million or 5.4 percent from the corresponding period of 1957. In March, 1958, estimated retail sales were only 2.5 percent below March of a year ago, having increased 5.0 percent from the previous month.

In comparison with the first quarter of 1957, fifteen of the eighteen cities experienced declines in retail sales in the first quarter of 1958. The largest decline was in Joliet with 21.0 percent, followed by Peoria with 15.3 percent, and East St. Louis with 13.7 percent (see chart). The area including Rock Island and Moline had the largest increase in retail sales with 6.1 percent. Reportedly, this increase was due to an upswing in production and sales of farm machinery. Farm machinery accounts for about half of the manufacturing employment in the area, and this industry reported that the number of persons on its payrolls in March was about 10 percent above 1957. Champaign-Urbana and Galesburg also experienced slight gains over the first quarter of 1957.

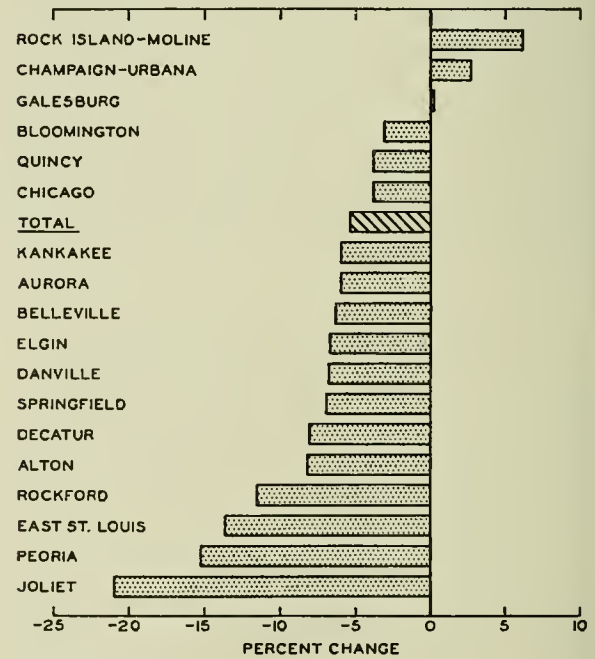
Oil and Gas Wells

The Illinois State Geological Survey has reported that a total of 137 wells were completed during a four-week period in April, 1958. Of these completions, 63 oil wells and 2 gas wells, or 47 percent, were successful. Jasper County had the most completions with 19 wells, and Christian County was next with 12 wells completed. No new oil pools were discovered during April, but there were extensions to each of the following pools: Mount Auburn Consolidated in Christian County, Gila in Jasper County and Clay City Consolidated in Wayne County. Some of the new wells have had initial productions of more than 200 barrels of oil a day.

Ceco's Expansion

The Ceco Steel Products Corporation, one of the nation's largest suppliers of light structural and related steel products, has announced the start of construction of a new steel producing unit near Lemont. This new plant will be operated by the Lemont Manufacturing Corporation, a wholly owned subsidiary of Ceco. It will be located on an 88-acre tract two miles west of Lemont and will consist of a 40,000-square-foot electric-metal shop, an 89,000-square-foot rolling mill, and auxiliary buildings, including a canal dock. The capacity of the new plant will be approximately 120,000 tons of billet-sized ingots per year, and output is expected to be consumed entirely by Ceco's own operations. A wide variety of products such as channels, angles and rounds, all sizes of reinforcing bars, and special architectural shapes will be produced.

CHANGES IN ESTIMATED RETAIL SALES
1st Quarter, 1957, to 1st Quarter, 1958



Source: Illinois Department of Revenue.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$27,516[a]	1,052,831[a]	$530,745[a]		$15,138[a]	$14,143[a]
Percentage change from Mar., 1958	−39.4	−8.0	+7.9	0	−8.6	+5.0
Percentage change from Apr., 1957	−27.1	−4.7	−8.0	−7	−1.4	−2.5
NORTHERN ILLINOIS						
Chicago	$14,849	789,923	$392,931		$13,845	$12,347
Percentage change from Mar., 1958	−58.0	−9.5	+6.6	−2	−9.1	+5.2
Percentage change from Apr., 1957	−39.3	−5.1	−7.6	−7	−1.3	−2.8
Aurora	$ 815	n.a.	$ 7,878		$ 62	$ 133
Percentage change from Mar., 1958	−65.5		+7.9	+10	−6.3	−1.0
Percentage change from Apr., 1957	+35.4		−6.6	+22	+1.0	+2.5
Elgin	$ 283	n.a.	$ 5,771		$ 41	$ 97
Percentage change from Mar., 1958	−33.3		+15.4	0	−3.6	+5.3
Percentage change from Apr., 1957	−56.6		−7.7	−5	+3.6	+17.9
Joliet	$ 747	n.a.	$ 9,447		$ 74	$ 84
Percentage change from Mar., 1958	+58.6		+10.7	+14	−3.9	+4.0
Percentage change from Apr., 1957	+52.4		−22.3	−7	−4.7	−7.6
Kankakee	$ 468	n.a.	$ 4,745		n.a.	$ 56
Percentage change from Mar., 1958	+262.8		+17.0	n.a.		+1.8
Percentage change from Apr., 1957	+151.6		−1.7			+14.0
Rock Island-Moline	$2,201	23,142	$ 9,869		$ 98[b]	$ 143
Percentage change from Mar., 1958	+151.8	−3.6	+7.3	n.a.	−1.2	−4.4
Percentage change from Apr., 1957	+72.4	−7.1	−2.3		+2.7	+7.5
Rockford	$1,335	43,359[c]	$16,248		$ 165	$ 224
Percentage change from Mar., 1958	+30.8	−4.3	+4.6	+12	−8.6	+4.4
Percentage change from Apr., 1957	−8.9	−2.6	−15.1	−13	−4.5	−3.6
CENTRAL ILLINOIS						
Bloomington	$ 159	8,199	$ 5,139		$ 63	$ 98
Percentage change from Mar., 1958	−22.1	−4.6	+13.9	n.a.	−11.4	+14.1
Percentage change from Apr., 1957	+47.2	−3.2	−3.4		−1.9	+10.7
Champaign-Urbana	$ 730	12,022	$ 8,327		$ 71	$ 99
Percentage change from Mar., 1958	−33.0	−3.3	+21.4	n.a.	−3.0	+0.5
Percentage change from Apr., 1957	−5.3	+7.4	+5.8		+8.4	−3.3
Danville	$ 879	12,494	$ 5,713		$ 46	$ 51
Percentage change from Mar., 1958	+10.3	+3.6	+19.9	+24	−1.5	−12.5
Percentage change from Apr., 1957	+477.7	+1.2	−4.5	−11	−7.6	−5.0
Decatur	$ 436	32,624	$10,873		$ 110	$ 106
Percentage change from Mar., 1958	+124.7	−8.2	+10.4	+6[c]	−9.7	+2.5
Percentage change from Apr., 1957	−71.5	−0.1	−10.5	−4[c]	−1.3	−9.1
Galesburg	$ 432	9,751	$ 4,284		n.a.	$ 39
Percentage change from Mar., 1958	+12.2	+8.3	+8.9	n.a.		+29.8
Percentage change from Apr., 1957	+68.1	+13.4	−1.7			+16.6
Peoria	$ 491	46,016[c]	$15,588		$ 215	$ 225
Percentage change from Mar., 1958	−35.5	−0.4	+10.6	+2[c]	+3.1	−1.0
Percentage change from Apr., 1957	−85.7	−14.9	−15.0	−14[c]	−6.8	−4.1
Quincy	$ 302	9,226	$ 4,677		$ 43	$ 63
Percentage change from Mar., 1958	+9.8	−1.5	+14.3	+9	+6.1	+5.3
Percentage change from Apr., 1957	−65.5	−7.7	−3.6	−5	+1.2	−8.5
Springfield	$ 847	32,794[c]	$12,822		$ 119	$ 249
Percentage change from Mar., 1958	−2.8	−7.4	+20.7	+11[c]	−6.9	+17.2
Percentage change from Apr., 1957	+103.6	+1.5	−3.6	−4[c]	−2.4	−2.3
SOUTHERN ILLINOIS						
East St. Louis	$1,326	12,148	$ 7,843		$ 149	$ 54
Percentage change from Mar., 1958	+795.9	−2.1	+11.5	n.a.	+5.0	−6.5
Percentage change from Apr., 1957	+494.6	+9.1	−13.8		−2.3	−4.3
Alton	$ 769	12,006	$ 4,289		$ 39	$ 33
Percentage change from Mar., 1958	+188.0	−5.5	+10.1	n.a.	−5.0	+3.2
Percentage change from Apr., 1957	+286.4	−11.9	−13.7		−2.2	+1.2
Belleville	$ 447	9,128	$ 4,300		n.a.	$ 41
Percentage change from Mar., 1958	+964.3	−0.4	+11.7	n.a.		+4.4
Percentage change from Apr., 1957	−42.2	+17.5	−9.3			+3.8

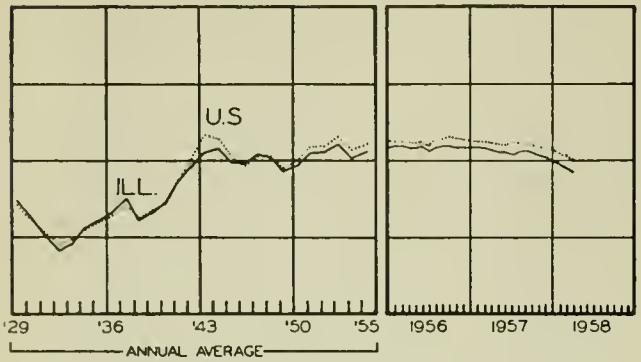
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for March, 1958. Comparisons relate to February, 1958, and March, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending April 4, 1958, and April 5, 1957.

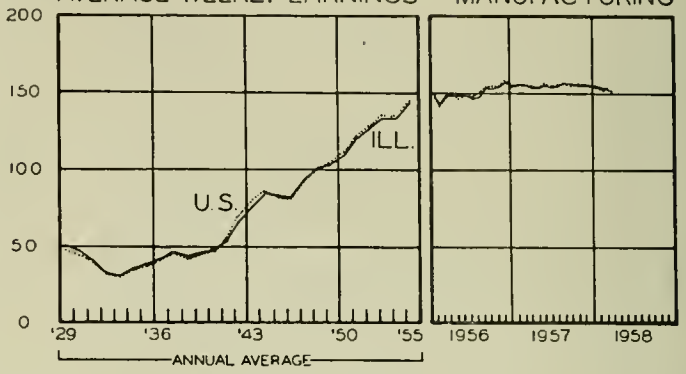
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

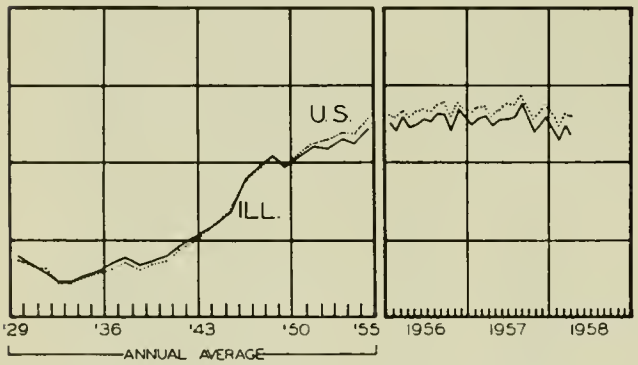
EMPLOYMENT MANUFACTURING



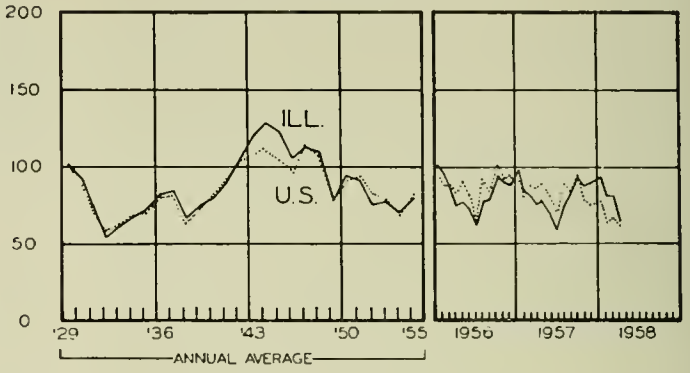
AVERAGE WEEKLY EARNINGS - MANUFACTURING



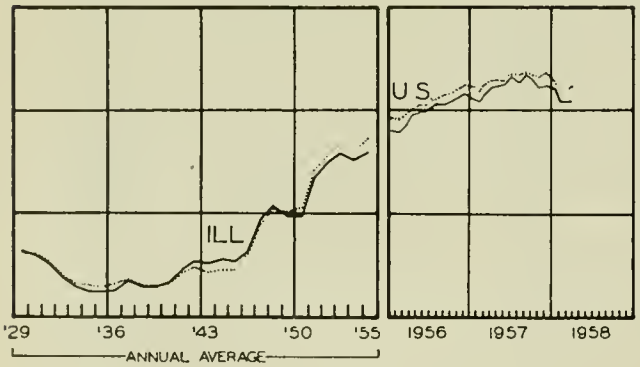
DEPARTMENT STORE SALES



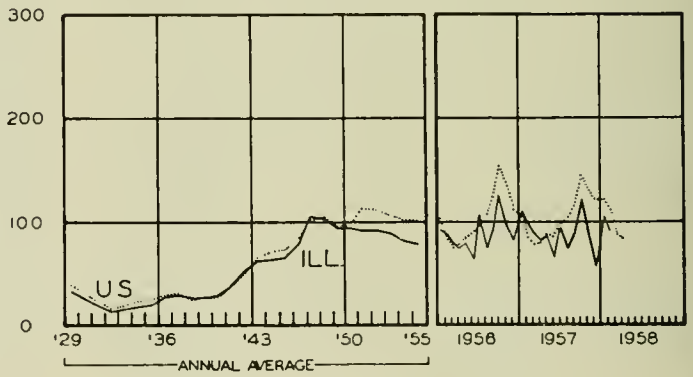
COAL PRODUCTION



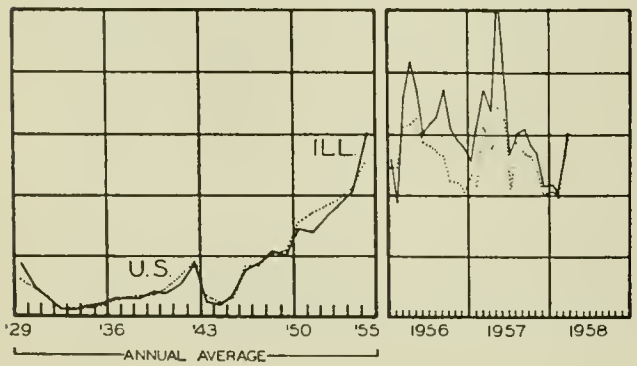
BUSINESS LOANS



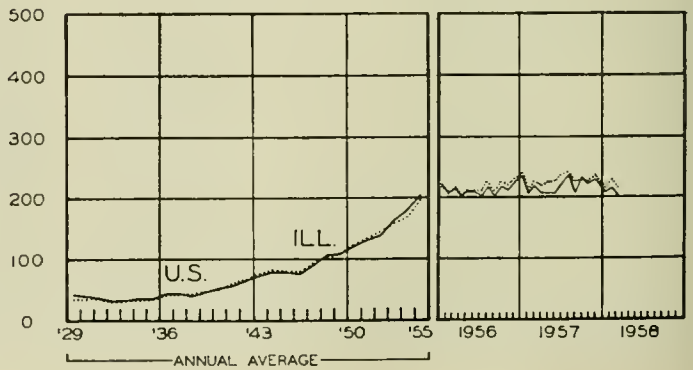
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XV | JULY-AUGUST, 1958 | NUMBERS 7 AND 8

HIGHLIGHTS OF BUSINESS IN JUNE

The improvements in the business situation noted in May continued in evidence during June. The seasonally adjusted index of industrial production, which advanced from 126 in April to 127 in May for the first gain since June of last year, rose to 130 in June. Employment in manufacturing increased by 150,000 and total employment by 920,000. Unemployment declined on a seasonally adjusted basis, although the unadjusted total rose to 5.4 million as a result of the influx of students into the labor force. Preliminary estimates put department store sales at 134 percent of the 1947-49 average; the 1 point gain over May made June the fourth month to show an increase over the preceding one.

The output of a number of industries increased more than seasonally in June. Steel production held above 1.6 million tons a week throughout the month, the first time this occurred in 1958. Both bituminous coal and petroleum output improved noticeably. Carloadings were well above May and heavy construction contracts not only outran May but also the three preceding Junes.

The automobile industry was an exception to the June improvement in output. Assemblies fell slightly from May to 337,355 cars, 32 percent below June, 1957, and the lowest June output since 1948. Production in July will be even lower because some plants have scheduled early shutdowns for model changeovers.

Construction Steady

A seasonal rise of more than $300 million brought construction outlays almost to $4.4 billion for June and just above $22 billion for the first six months of 1958. However, the figure for the month was down slightly from June a year ago, and dollar value of new construction put in place during the first half of this year was about the same as for the corresponding period in 1957.

A 7 percent advance in private construction, occurring mainly in residential building, and a 9 percent increase in public spending, affecting principally school and highway outlays, accounted for the June advance. Spending in the first half of the year reflected an increase of 3 percent in public construction, offset by a 1 percent decline in private expenditures. Expanded activity in public housing for military personnel and in highways was primarily responsible for the former, and a big drop in industrial building was the principal factor in the relatively poor showing of the private sector.

Difficulties that arise during the summer months in obtaining data, printing, and publishing make it desirable to combine the July and August issues of this *Review*. Henceforth, they will appear in July as a single issue numbered 7 and 8.

Business Sales Rise in May

Bearing out earlier reports of improved business conditions in May, more recent information indicates that sales of both manufacturers and retailers rose slightly, and those of wholesalers held steady, after seasonal allowances. The net gain of $300 million, the second consecutive advance over the previous month, raised total business sales to $52.4 billion and occurred primarily in durable goods manufacturing industries. However, as compared with May sales a year ago, the total was still down $4.4 billion, largely as a result of smaller shipments by manufacturers.

The book value of inventories held by business firms declined $650 million on a seasonally adjusted basis to $87 billion during May. A drop of $500 million in stocks held by manufacturers was close to the rate of other recent months and reflected particularly continuing pressure in durable goods industries. New orders received by manufacturers showed a mild increase in May after allowance for seasonal influences. A gain of $500 million by durable goods producers, centered in primary metals and electrical machinery, more than offset a fall of $300 million experienced by nondurable goods manufacturers.

Consumer Debt Up

Total consumer debt rose to $43.0 billion by the end of May, $1.1 billion above the year-earlier figure but below the peak of $44.8 billion reached last December. After seasonal adjustment the increase was $50 million, the net result of a gain of $150 million in noninstallment debt and a drop of $100 million in installment debt.

Repayments on automobile paper exceeded new extensions of this type of installment credit by $183 million, after allowance for seasonal variation and differences in trading days. However, net advances in the adjusted figures for other consumer goods paper, for personal installment loans, and for repair and modernization loans partially offset the decline in auto paper. The gain in noninstallment credit largely reflected a boost of $146 million in charge accounts.

ECONOMIC COMPARISONS: US AND USSR · · By Daniel Creamer · · Page 6

ILLINOIS BUSINESS REVIEW

Published eleven times a year by the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Campaign for Confidence

A troubled radio newscaster complained about the policy set by his boss. He is permitted to broadcast only optimistic news about business. If a local plant lays off 25 workers, he says nothing; if it rehires 5, he plays up the gain. Many newspapers and magazines have also directed reporters and headline writers to "accentuate the positive." At least one of the two major press services has entered wholeheartedly into these efforts to "reassure" the public. Other newsmen insist on calling the shots as they see them, but the net result is confusion with an optimistic bias.

All this is part of a concerted "campaign for confidence" undertaken with the sanction if not at the direct request of the Administration in Washington. President Eisenhower and other officials pointed the way in speeches before a conference organized by the American Management Association. The Advertising Council lent its resources to increasing the output of favorable "news" to be put before the people. Local as well as national trade associations and merchandising organizations have put on "Buy Now" or similar drives to loosen the consumer's purse strings.

What it all adds up to is a concerted effort to mislead the American people. The campaign tries to avoid direct falsehood but does not hesitate at even the most palpable half-truth. Its techniques are selective reporting, slanting headlines and summary paragraphs, excluding qualifications, diverting attention, and interpreting the irrelevant favorably. After May, actual developments added some true recovery notes that could be played up in their own right as well as made to support the ballyhoo.

Business Is Willing

Businessmen and advertisers have no reservations about throwing themselves into this campaign. Their job is to sell, and anything that helps is welcome. They "can't lose" if it works. In fact, by helping make it work, they can consider themselves to be doing a public service, since in that event, nearly everyone will be better off.

The appeal for the use of advertising derives from its potential application of the "band-wagon" principle. This principle is widely used in advertising for individual concerns, and many advertisers feel the only reason it does not work better is that the opposition is offsetting their efforts. Here, then, is an interesting experiment, in which all may work together to get everybody on the prosperity band-wagon. Whether any advertising contribution could be proved in so complex a situation is doubtful. For the same reason it remains moot whether advertising in general has any effect in increasing overall income beyond the increments, direct and indirect, resulting from the earnings of those employed in advertising activities. Nevertheless, the confidence drive does provide the advertiser a chance for another try. If it means that others are not properly playing their roles in the community, that is not a concern of the advertising man.

For businessmen in general, the confidence campaign is not essentially different from other sales campaigns. However, it creates some difficulty by making for a good deal of inconsistency between what they say and what they do. One large firm, for example, had to cancel out new factory facilities at the same time it was putting on an "Operations Upturn" campaign supported by optimistic statements from its leading executives. Others feel impelled to reduce dividends while telling the public, "Business is good!" Any influence on business itself is thus dissipated. Those who are "in the know" of the confidence drive are bound to mistrust similar statements from others, and operations in an atmosphere of mistrust render the whole effort toward mutual stimulation self-defeating.

Government Responsibility

In contrast to the advertisers, the government has a responsibility to the public and cannot properly take a cavalier attitude about the consequences of its actions, or inaction, on the welfare of the people. If its pronouncements lead consumers into reckless commitments on purchases made with borrowed funds, they can hardly be considered consistent with its role as protector of the average citizen. If the government ignores the threat of deeper depression, it increases the likelihood that deflationary forces will get out of hand. The need for watchfulness and action is not purely contingent. Unemployment today is above the top level that could be considered consistent with the government's commitments under the Employment Act of 1946.

It is true that there are certain anomalous aspects of the situation which open the way for reasonable differences of opinion. Prices have held firm and the stock market has advanced. Following a situation in which fears of inflation were dominant, the effect of this strength in prices is to inject an element of confusion into policy discussions. However, this is not necessarily the whole explanation of the current "business-as-usual" philosophy. Participation in the "campaign for confidence" itself ties the hands of the policy maker. He cannot admit things are unsatisfactory, and to avoid hypocrisy, he must overlook what would be damaging if he acknowledged it. He cannot act, furthermore, because to do so would be to affirm what he has set out to deny. His only resort when confronted with disagreeable facts lies in "if-and-when" promises.

No doubt many officials sincerely, if wishfully, believe that the recession is over and that natural forces will take care of the recovery. One cannot help wondering what Eisenhower the General would say about the sentry who went to sleep at his post because he felt sure no danger was near.

(Continued on page 8)

INDUSTRIAL EXPLOSIVES AND FIREWORKS

Explosives have a very long history. The invention of gunpowder, probably the oldest known, is often attributed to the Chinese of the pre-Christian era, but the earliest recorded use of it was in Europe about A.D. 275. Records indicate its use as a propellent as early as 1313 and as a blasting agent by 1627.

The development of high explosives occurred only about a century ago with the discovery of guncotton (nitrated cellulose) and the subsequent invention of nitroglycerin, which today is the most important ingredient in all commercial high explosives. Alfred Nobel did more than anyone else to give high explosives commercial use with his invention of the first practical blasting cap in 1867 and with his development of blasting gelatin — the most powerful commercial explosive known — and dynamite, both requiring a nitroglycerin base.

The Industry at Mid-Century

Industrial explosives have become an integral part of American industry. Their application serves a diversity of uses ranging from mining and construction work to such miscellaneous purposes as stump-blasting and ditch-digging in agriculture. In 1954, they made up nearly one-half of the total value added by manufacture for all types of commercial explosives.

In 1956, more than one billion pounds of industrial explosives were consumed in coal mining, railroad and highway construction, quarrying, metal mining, petroleum mining, and agriculture, in that order. In the same year, sales reached an all-time high of $225 million.

In the industrial explosives sector, about 95 percent of the total value added by manufacture is produced by establishments with more than 100 employees. The 74 establishments in this branch of the industry, which employed more than 32,000 workers in 1954, manufactured items such as blasting powder, high explosives, nitrated carbohydrates, safety fuses, and blasting caps. Government-owned, privately operated plants accounted for $213 million of the total $390 million in values of shipments for 1954.

Unlike the industrial explosives plants, most of the fireworks and pyrotechnics establishments tended to be small. Seventy percent had fewer than 50 employees; these plants produced more than one-half of the $12 million value added by manufacture in 1954. The major products of these firms are fireworks, flares, flashlight bombs, railroad torpedoes, and fuses.

Product Changes

Although the manufacture and consumption of explosives have increased greatly since the early 1900's, the production techniques differ only slightly from those used at that time and major discoveries have been less frequent.

Because of the delicate operations of all explosives manufacture, nearly all plants have for many years consisted of small buildings scattered over a large area to prevent total destruction in case of accidents. Within recent years, some of the larger firms, such as DuPont, have installed connecting conveyor belts between these isolated structures, thereby approximating an assembly-line process of explosives production.

Last year a significant increase was noted in consumption of lower-priced ammonium nitrate in polyethylene bags for blasting in coal strip mining. This, however, is part of a long-range trend toward ammonia dynamites, in place of the older straight dynamites, for mining operations where ventilation is good and moisture is low. The major difference between the two is that the former has part of its nitroglycerin replaced by ammonium nitrate. Ammonia dynamites today account for about two-thirds of all dynamites made; although this type is not as potent, it has the advantages of lower cost, less shock-sensitivity, and safer fumes.

Increased use of ammonium nitrate as a blasting agent has led to a major decline since 1948 in production and consumption of the formerly popular black blasting powder. Sales volume plummeted 82 percent to 6 million pounds between 1948 and 1956.

The fireworks industry has been able to turn out products of greater size, louder noise, and richer colors through new varieties of chemical compositions. But the basic construction techniques remain much the same as in the late eighteenth century. The innovations of this industry have generally paralleled the introduction of new chemicals. Of the postwar developments, the use of hexachlorobenzene and other organic compounds of chlorine to brighten the flaming colors probably ranks as most important.

Illinois — New Leader

Since 1948 Illinois appears to have jumped from fourth place to become the national leader in industrial explosives production. In the manufacture of fireworks and pyrotechnics, Illinois is probably fourth, although its position is somewhat uncertain since the *Census of Manufactures* does not reveal statistics for most states.

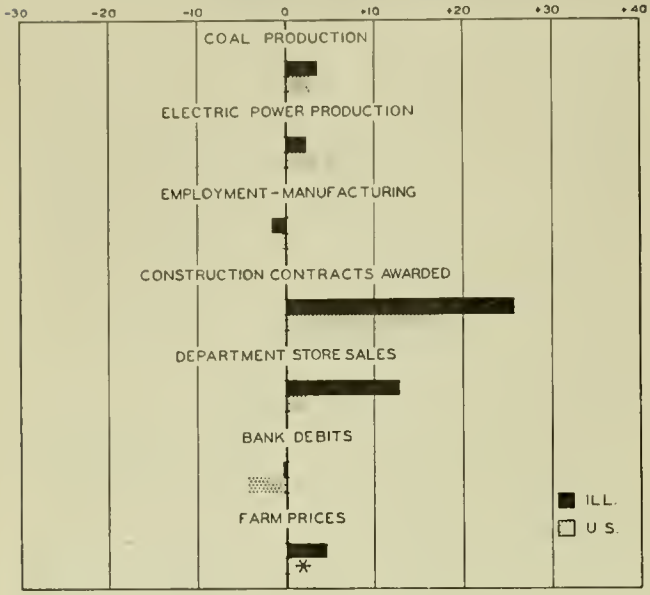
The first explosives plant in Illinois was established in 1892 at East Alton in Madison County; this area still appears to be the center of the industry in the State. Most of the earlier Illinois plants located in areas with carbon deposits, which were necessary for production of black blasting powder. Today, the State's industrial explosives plants are found in Alton, Seneca, DuQuoin, Grafton, Wolf Lake, and Joliet. The latter is a government-owned, privately operated establishment. Fireworks plants are located at Jacksonville, Danville, South Beloit, and River Grove.

Although Illinois has only six of the nation's 74 industrial explosives plants, its $29 million in value added by manufacture in 1954 comprised nearly 14 percent of the national total. Industrial explosives manufacture expanded greatly in Illinois between 1948 and 1954, from 557 employees to 3,900 and from $5 million to $29 million in value added by manufacture. Together with Indiana and Wisconsin, it has shifted the explosives center to the Midwest from the East Coast. Nearly all of the Illinois plants are large, with only one having less than 20 employees and the average having 660 workers.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1958, to May, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	May 1958 (1947-49 =100)	Percentage change from Apr. 1958	Percentage change from May 1957
Electric power[1]	206.2	+ 2.5	− 1.8
Coal production[2]	66.5	+ 3.5	−13.3
Employment—manufacturing[3]	91.7	− 1.6	−13.1
Weekly earnings—manufacturing[3]	152.6[a]	− 0.3	− 0.9
Dept. store sales in Chicago[4]	119.0[b]	+ 3.5	0.0
Consumer prices in Chicago[5]	127.0	0.0	+ 3.9
Construction contracts awarded[6]	378.9	+25.9	−27.8
Bank debits[7]	172.6	− 0.3	− 7.1
Farm prices[8]	93.0	+ 4.5	+14.8
Life insurance sales (ordinary)[9]	282.7	− 5.6	− 7.0
Petroleum production[10]	125.0	+ 1.1	+ 2.8

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] April data; comparisons relate to March, 1958, and April, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1958	Percentage change from Apr. 1958	Percentage change from May 1957
	Annual rate in billion $		
Personal income[1]	344.3[a]	+ 0.3	+ 0.3
Manufacturing[1]			
Sales	301.2[a]	+ 0.8	−12.2
Inventories	51.0[a, b]	− 1.0	− 5.4
New construction activity[1]			
Private residential	16.8	+ 8.9	− 2.3
Private nonresidential	16.4	+ 5.6	− 5.5
Total public	15.6	+15.7	+ 4.1
Foreign trade[1]			
Merchandise exports	18.4[c]	− 1.7	−17.9
Merchandise imports	12.7[c]	− 2.1	− 5.0
Excess of exports	5.6[c]	− 0.7	−37.2
Consumer credit outstanding[2]			
Total credit	43.0[b]	+ 0.8	+ 3.2
Installment credit	33.0[b]	+ 0.1	+ 3.3
Business loans[2]	29.8[b]	− 1.3	− 4.1
Cash farm income[3]	26.4[c]	+ 4.3	+14.0
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	127[a]	+ 0.8	−11.8
Durable manufactures	134[a]	+ 1.5	−16.2
Nondurable manufactures	125[a]	0.0	− 4.6
Minerals	110[a]	+ 0.9	−15.4
Manufacturing employment[4]			
Production workers	92	− 0.1	−12.5
Factory worker earnings[4]			
Average hours worked	96	+ 0.5	− 3.0
Average hourly earnings	159	0.0	+ 2.4
Average weekly earnings	153	+ 0.5	− 0.7
Construction contracts awarded[5]	343	+18.1	+ 0.1
Department store sales[2]	133[a]	+ 2.3	− 1.5
Consumer price index[4]	124	+ 0.1	+ 3.3
Wholesale prices[4]			
All commodities	120	+ 0.2	+ 2.0
Farm products	98	+ 0.7	+ 9.9
Foods	113	+ 1.3	+ 7.6
Other	125	− 0.2	+ 0.1
Farm prices[3]			
Received by farmers	97	0.0	+ 9.0
Paid by farmers	122	0.0	+ 3.4
Parity ratio	86[d]	0.0	+ 4.9

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for April, 1958; comparisons relate to March, 1958, and April, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	June 28	June 21	June 14	June 7	May 31	June 29
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,624	1,486	1,383	1,296	1,275	2,057
Electric power by utilities...mil. of kw-hr	11,757	11,941	12,109	11,681	11,155	12,111
Motor vehicles (Wards)...number in thous.	109	102	96	90	82	150
Petroleum (daily avg.)...thous. bbl.	6,373	6,345	6,335	6,256	6,242	7,190
Steel...1947-49=100	97	102	100	98	91	125
Freight carloadings...thous. of cars	627	628	622	613	530	732
Department store sales...1947-49=100	111	117	138	135	116	115
Commodity prices, wholesale:						
All commodities...1947-49=100	119.1	119.0	118.8	119.1	119.3	117.4[a]
Other than farm products and foods...1947-49=100	125.2	125.2	125.0	125.2	125.2	125.2[a]
22 commodities...1947-49=100	86.1	85.4	85.5	85.8	86.3	89.9
Finance:						
Business loans...mil. of dol.	30,356	30,373	29,790	29,677	29,795	32,525
Failures, industrial and commercial...number	335	290	254	325	278	275

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for June, 1957.

RECENT ECONOMIC CHANGES

Foreign Trade

The Commerce Department's quarterly balance-of-payments figures reflected a decline in foreign trade during the first three months of 1958. The agency reported that United States exports of goods and services in the first quarter of this year amounted to $5.6 billion, off about $1 billion from the closing three months of 1957.

At the same time, United States purchases, grants, and investments abroad fell by about $200 million — from $6.6 billion in the last quarter of 1957 to $6.4 billion in the opening quarter of this year.

As a result of these transactions, foreign countries had an excess of $546 million in dollar receipts over expenditures, compared with $114 million in the previous quarter. Most of this amount, about $370 million, was used to purchase gold from the United States; the remainder was added to holdings of liquid dollar assets.

Machine Tool Demand

Following a three-month climb which began in January, new orders for machine tools fell to $22.9 million in April and continued downward in May. The National Machine Tool Builders' Association reported that May orders were valued at $22.0 million, off 47 percent from $41.4 million in the same month last year.

The latest declines in orders have caused some price cutting within the industry as manufacturers competed for the diminishing volume. This contrasts sharply with price increases of about 10 percent in 1956 and additional 5 to 10 percent hikes last year.

Tool shipments also declined in May, falling to $37.9 million, less than half the value of tools delivered in May, 1957.

For the first five months of the year, shipments have totaled $210.2 million, compared with $409.7 million in the same period last year, a decline of 48 percent. Orders so far in 1958 have amounted to only $116.4 million, a decrease of about 58 percent from the $273.1 million ordered in the first five months of 1957.

Since machine tools, which are basic to all heavy metal products ranging from household appliances to automobiles, take from a few months to a year and a half to build and ship, orders must be placed well in advance of the expected delivery date. As a consequence tool demand is frequently used as an indicator of future business activity. By the fall of 1956, well before the weakening in general business activity became pronounced, machine tool orders had already begun the long downtrend which has brought them to their present levels. (See chart.)

MACHINE TOOLS

Source: National Machine Tool Builders' Assn.

Farm Prices and Income

The Agriculture Department's index of prices received by farmers fell 9 points, or 3 percent, last month as spring shortages of cattle, citrus fruit, and vegetables neared an end. The decline, which came on the heels of seven consecutive monthly increases, brought the index down to 255 percent of the 1910-14 average, still about 5 percent higher than a year ago.

Prices paid by farmers also decreased during the month, but more moderately. The department reported the mid-June prices-paid index at 305 percent of the base period, compared with the record high of 306 percent in the previous month and 296 percent last year.

With the prices-received index falling faster than the prices-paid index, the parity ratio declined 2 points to 84. This was 2 points above the 82 for the same month last year and 4 points above the low reached in February, 1957.

Before the parity ratio fell in June, farm income for the first five months of the year had moved up over the corresponding period of 1957. The department estimated that farmers received $11.3 billion from the sale of crops and livestock in the first five months of 1958. This was 9 percent greater than a year earlier, with most of the gain resulting from higher prices.

Employment

Unemployment increased by 533,000 in June to the highest level since August, 1941. The Commerce and Labor departments report the total number of jobless reached 5.4 million last month. The advance in unemployment during June was caused by the annual influx into the labor market of job-hunting students. However, because of the much higher level of unemployment prevailing this year, the seasonal change was enough to push the number of jobless to a seventeen-year high.

At the same time, total employment rose by 920,000 to a mid-June level of nearly 65 million workers. With manufacturing industries sharing in the rise for the first time after a year and a half of steady decline, nonagricultural employment rose about 300,000.

Census data, in thousands of workers, are as follows:

	June 1958	*May 1958*	*June 1957*
Civilian labor force	70,418	68,965	69,842
Employment	64,981	64,061	66,504
Agricultural	6,900	6,272	7,534
Nonagricultural	58,081	57,789	58,970
Unemployment	5,437	4,904	3,337
Seasonally adjusted rate	6.8	7.2	4.5

ECONOMIC COMPARISONS: US AND USSR

DANIEL CREAMER*

Recent events have brought out Soviet Russia's impressive accomplishments in the sciences on which missile development is based. With the attainment of this success, Soviet leaders have announced that "We shall conquer capitalism with a high level of work and a higher standard of living." In the light of this challenge to our economic leadership, an examination of the current records of the two economies becomes highly relevant.

With the exception of foreign trade and aid, which are measured in international prices, all the following comparisons are made in physical units. No attempt is made to compare the rates of economic growth in the two countries because such data have serious pitfalls and are still subject to vigorous debate by the specialists.

Land and People

The Soviet Union, astride two continents, has a land area nearly three times that of the United States. However, a large proportion of the USSR is classified as waste land — chiefly the tundra, or frozen marshes, along its entire northern zone, and the vast areas found in many parts of southern Siberia. Indeed, so extensive are these waste lands that the area devoted to agriculture is only 17 percent greater in the USSR than in the US. The relative shortage of arable land exerts a braking force upon the expansion of the entire economy. The difference in the agricultural posture of the two countries is strikingly illustrated by Russia's efforts to expand its sown area and thereby agricultural output, whereas we have been seeking ways to effect the withdrawal of marginal lands from cultivation to reduce production.

For a number of reasons, the gap between the two populations has narrowed from 60 million in Russia's favor in 1940 to about 30 million in mid-1956. War-created factors explain the greater excess of women in Russia and the comparatively smaller number of aged persons. But more clearly indicative of differences in economic structure is the proportion of people living in urban areas — nearly two-thirds in the United States, slightly more than two-fifths in Soviet Russia.

That agriculture continues to be a "problem child" in Soviet Russia is dramatically revealed by its voracious demands for manpower. More than one-third of its adult population 15 to 59 years of age was employed in agriculture in 1956, compared with less than one-tenth in the United States. So pressing are the manpower requirements in Soviet agriculture that the number employed in farming, nearly 45 million, is about equal to the number engaged in nonfarm civilian pursuits. In the United States, 58 million in 1956 were employed in nonfarm civilian jobs. That is, off-the-farm employment in the United States exceeds that of the USSR by one-fourth, although its adult population numbered only three-fourths of Russia's.

This simple relationship makes clear one of the factors that influences Russia's current campaign to raise the productivity of farm labor and to press for the reduction in the size of standing armies. The liberation of manpower from the farm and army is the only possibility for the rapid expansion of nonfarm civilian employment.

Capacity to Produce

Agriculture. The agricultural bottleneck in the Soviet Union persists despite the lavish use of manpower — the Soviets have one agricultural worker for every ten sown acres and the United States, one worker for every sixty sown acres. Productive livestock on Russian farms also compares favorably with numbers in the United States, except in the case of hogs and cattle other than milk cows. How account then for the Soviet's lagging output?

It appears to stem from the planning authorities' decision to curtail investment in farm equipment and from their failure to provide the farm worker with adequate incentives. On the former score note the highly restricted use of tractors (one Russian tractor for 515 acres compared with one tractor for 82 acres in the United States) and electricity on farms (3 billion kilowatt-hours in the USSR and 22.1 billion in the United States) and the conservative approach to the use of inorganic fertilizers (56 pounds per sown acre in the Soviet Union and 113 in the United States).

The lack of incentives is traceable to the nationalization of the land, to compulsory delivery of crops to the state at low prices, and to the general absence of manufactured consumer goods. In 1956, 96 percent of the sown area was owned and operated either by the collective farms or by the state, leaving scope for individual initiative on only 4 percent of the sown area. In the post-Stalin period, growing recognition of the inadequacy of the incentives provided farm workers has led to important changes. Beginning in 1953 the government has raised its prices paid for crop and livestock products; and in recent months, Khrushchev's plan for abolishing the machine-and-tractor stations and selling the farm machinery to collective farms has been put into effect, and compulsory deliveries of farm produce to the state have been abolished.

Energy and Transportation. The industrialization of a nation is dependent as much on the expansion of its energy and transportation facilities as on the expansion of its agricultural base. In the Soviet Union the main source of energy has been coal. In the United States, coal production has been declining for several decades as competitive sources of energy — petroleum, natural gas, and hydroelectric power — have been substituted. Even so, in 1957 Russian coal production, including lignite reduced to its equivalent in bituminous, was only 85 percent of United States production. Soviet production of petroleum and electricity amounted to less than one-third of the United States output. And gas, whether manufactured or natural, appears to be an infant industry in the Soviet Union. However, between 1950 and 1957 Soviet coal production expanded by 75 percent, electricity by 130 percent, petroleum by 160 percent, and gas by 225 percent. It is unlikely that energy will constitute any bottleneck for Soviet industrial expansion even if these rates of growth are not maintained.

The transportation network, on the other hand, probably continues to be a drag on Soviet economic growth. By comparison with the United States, the Soviet transport system seems antiquated. In the USSR more than four-fifths of all freight traffic moves by rail — in the

* Director, Division of Economic Studies, National Industrial Conference Board. This article is based on the Annual Chart Survey of the National Industrial Conference Board, *Economic Comparisons: USA and USSR*, by Gertrude Deutsch, Daniel Creamer, and Miriam Civic. Copies may be obtained from The Conference Board, 460 Park Avenue, New York 22, N. Y., $1.50 per copy.

United States less than one half. Trucks and pipelines handled only 5 percent of all ton-miles of freight in the USSR compared with 36 percent in the US. The Soviet people too rely chiefly on the railroads for transportation — 81 percent of all passenger-miles in Soviet Russia were covered by rail whereas 88 percent here were accounted for by private automobiles. Consistent with these differences in means of travel is the vast difference in the volume of interurban passenger traffic — 110 billion passenger-miles in the USSR and 699 billion in the United States, despite Russia's larger population and area.

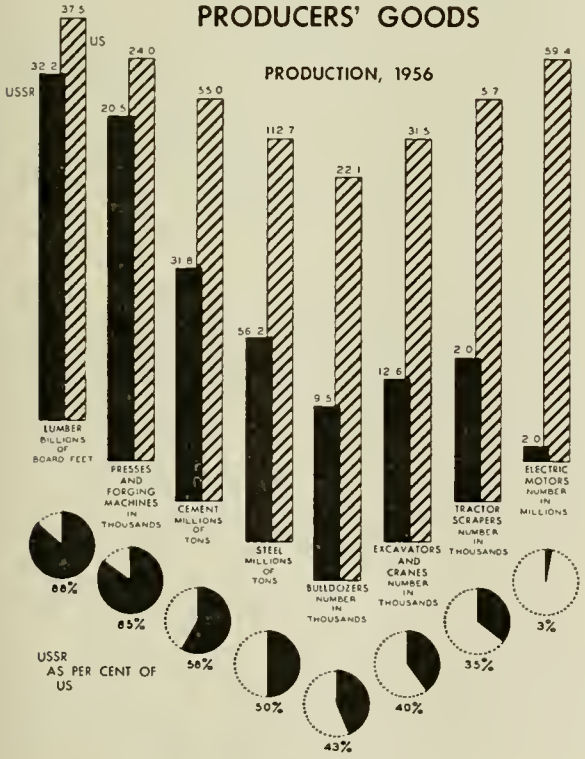
Producers' Goods. Concentration on expanding capital goods industries, especially those supplying military needs, has been a prime objective of Soviet leaders. In basic materials, such as steel and cement, Soviet production in 1957 was about half that of the United States (see chart). Perhaps more significant is Russia's rate of expansion in these industries in recent years. For example, steel tonnage nearly doubled and cement tonnage nearly tripled between 1950 and 1957.

Machine-tool building is the keystone in any large industrialization program. In 1956, Soviet production of power-driven presses and forges, for example, was 85 percent of ours. Some analysts of Soviet economic development state that the Soviet machine-tool industry has a larger capacity than ours and produces more machine tools. Despite difficulties in statistical comparison, we may be certain that the USSR does possess a fully developed machine-tool industry.

In evaluating Russia's output of producers' goods, one must bear in mind that relatively little is diverted from the production of capital equipment and military hardware to consumers' durable goods.

Foreign Trade and Aid

While the precise rate of Russian economic expansion remains a matter of debate, the fact of its expansion cannot be gainsaid. This growth of the Soviet economy is reflected in its foreign trade and aid.



Source: National Industrial Conference Board.

The foreign trade of the USSR (exports and imports combined) expanded by 150 percent between 1950 and 1957 and trade with noncommunist countries by 200 percent between 1950 and 1956. On the export side, it is significant that the Soviet Union has the capacity to supply processed commodities as well as raw materials. The latter accounted for three-fifths of Russia's exports in 1956; on the other hand, metals and machinery and equipment amounted to as much as one-third of all exports.

This capacity to export metals and capital equipment has established the Soviets as a competitor to be reckoned with in the field of economic aid to less developed countries. Although Russia's cumulative commitments for nonmilitary aid to the free world since the end of the Korean War — chiefly in the form of long-term, low-interest loans — are only one-fifth those of the United States, it seriously entered this field only in 1956.

Its aid program is much more selective, three-fourths being directed to neutral countries in Asia and Africa, compared with a more nearly equal division of our commitments between those areas and the free countries of Europe, including Turkey and Yugoslavia. Whether Russia can continue to expand such aid in the face of the demands of her own people and her European satellites for a higher level of living and in the face of already large commitments to China remains a moot point.

Levels of Living

How did Russia and the United States compare in the production of consumer goods in 1957? Despite some expansion in recent years, production per capita for most food items lagged by a long distance behind American levels. The single exception revealed by a search of published data was fish — in this instance per capita production in the two countries was equal. The high level of Soviet fish production is a counterpart of its low per capita meat production — about one-third of the United States standard. In two other staple foods, grains and refined sugar, about one-half of our per capita output was achieved. Only in milk production is Khrushchev's boast likely to be confirmed in the near future.

Much the same picture emerges when one examines staple items of clothing or fabrics, except in the case of woolen cloth, which amounted to nearly 90 percent of our per capita production. (None of these commodity comparisons make allowance for quality differences.)

Equally revealing of the differential in output of consumers' commodities are the distributions of retail sales in the two countries. In the Soviet Union in 1956, three-fifths of all expenditures at retail, including restaurant meals and purchases on the peasants' free market, were expenditures for food, compared with less than one-half here. For another class of "necessities," textiles and clothing, the Russian consumer spent more than one-fifth of his retail ruble and the American consumer slightly more than one-eighth of his retail dollar. As a consequence, expenditures on other commodities, including luxuries that add spice and variety to everyday living, accounted for less than a fifth of the retail total in the USSR and for nearly two-fifths in the US.

Still less effective is the Soviet Union's competition in the field of housing and consumers' durable goods. Estimates sufficiently accurate to establish orders of magnitude indicate that a Russian occupies only 18 percent of the dwelling space of an American. Typically,

kitchens and bathrooms are shared by several families. The persistence of this acute housing shortage finally forced a promise from the Soviet leaders in 1957 that it would be alleviated over the next ten to twelve years.

As to consumers' durable commodities, the lag in Soviet output is dramatically revealed even when no allowance is made for the Soviet Union's larger population. In 1957, the bicycle was the only item produced in greater number in the USSR. There it is a means of adult transportation and here it is a plaything or convenience of youth. Despite a decade-long decline in our radio production, we made nearly three times as many receiving sets (excluding car radios) as did Russia last year. Comparison of outputs of television sets, household washing machines, and household refrigerators is even more unfavorable to the Russians. The contrast in the production of passenger automobiles is very sharp (114,000 in the USSR and 5,982,000 in the United States in 1957).

Buying Power of Work Time

Just how high are prices — say, in Moscow compared with New York? In the absence of prices arrived at under comparable institutional arrangements, the comparison is made in terms of the work-time of an "average" worker required to purchase a staple item in the worker's budget. A Moscow worker, for example, had to work 33 minutes in 1957 to earn enough to purchase a quart of milk; a New York worker, only seven minutes — a fact omitted from the Soviet claim of soon surpassing our per capita milk production. A pound of bread required nine minutes of effort in Moscow and five minutes in New York; a dozen eggs took 2¼ hours in Moscow, but only fifteen minutes in New York. In Moscow, 37 days of labor buy a man's wool suit, whereas in New York three day's pay is sufficient. Six days are necessary to purchase a pair of woman's leather shoes in Moscow, only five hours in New York. Not unexpectedly, the largest relative difference is the cost in labor-time of a consumers' durable item; for example, to purchase a table radio requires one day in New York and 25 days in Moscow. If this comparison should make the Moscovite disconsolate, he could dispel the gloom by using his earnings from six hours of work for the purchase of a fifth of vodka — a New Yorker can acquire the same solace from a fifth of whiskey with earnings from two hours of work.

These comparisons are based on the typical workweek of 46 hours spread over six days for a Moscow worker and average monthly earnings of about 750 rubles, and a 40-hour, five-day workweek for a factory worker in New York whose hourly earnings in 1957 averaged $2.04.

In evaluating the lower real wages of the Soviet worker, one must bear in mind that some important services are subsidized out of general taxes and, therefore, constitute only a small claim on take-home pay. Thus, rent represents probably less than 5 percent of a worker's income, and direct medical and dental expenses are small because of the Soviet system of socialized medical care.

Although the standard of living of the Soviet worker is much below that of the American worker, it is higher than the levels found in most of Asia and Africa.

The preceding comparisons have made it abundantly clear that the battle for consumer welfare between the Soviet Union and the United States has scarcely been joined. The pay-off of the Soviet design, however, is not to be measured in per capita consumption, but in their military posture vis-à-vis the United States. In a recent appraisal of Soviet military equipment, Hanson W. Baldwin, military analyst for the *New York Times*, concludes that "one of our greatest advantages vis-à-vis the Soviet army — superiority in quality — has been lost or is rapidly vanishing." The Soviet economy must be credited with this accomplishment, achieved by imposing an iron-rations economy on the Russian consumer.

Campaign for Confidence

(Continued from page 2)

The Position of the Press

In many ways, the participation of the press in this campaign is even more singular than that of the government. Its foremost duty is to report faithfully the facts of the situation so that the people's action may be informed. This function becomes increasingly important in a complex economy like ours, because each person's activity becomes more and more specialized and less and less informed at first hand about what is going on elsewhere. It may seem understandable in a community that has been sheltered against the recession — for example, in farm communities whose income rose with prices — to ask, "Where is this recession, anyway?" The implicit boast, however, is of no real service to its members.

No one should blame the press, of course, for unintentional violations. When a newspaper picks up biased releases from government agencies or others who should know better, it may itself be duped as much as its readers. However, when it does so consistently, as a matter of policy, it has no right to the reader's respect. Some might argue that the newspapers have long ago lost their reputation for dependability and with it the effectiveness of their editorial policy. Nevertheless, this is hardly a lesson that a newspaper should want to be constantly reiterated.

Perhaps the greatest danger to the press would derive from a striking success in this kind of campaign. For if manipulation of news could really move the economy, there would be increased support for bringing it under control. Control, in the form either of restrictions or of directed reporting, is feared by intelligent people everywhere as well as by the press itself. But who can say where failure to take responsibility seriously may lead?

No Loss, No Gain

Perhaps these comments unduly exaggerate the danger, since the current publicity campaign is sure to fail if substantial band-wagon effects do not appear. Past experiments of this kind give no indication that any overwhelming success is likely to be achieved. In the early 1930's, similar campaigns failed dismally. The whole structure of psychological theorizing on which they are based is fallacious. If favorable psychology were so potent, why did the declines from last year's highs occur at all? At that time, nearly everybody was optimistic.

For the same reason, the current optimism, whether based on facts or on fancy, may be discounted. If the economy moves up during the next few months, as the discussion here last month indicated to be likely, no one should be led into the mistaken view that the public had been successfully manipulated. No more should one conclude that the future is assured beyond the temporary interval to which the hopeful indications apply. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

A Study on Mortgage Debt

The National Bureau of Economic Research has just released a Technical Paper entitled *The Volume of Mortgage Debt in the Postwar Decade,* written by Saul B. Klaman. This paper is the first result of the postwar capital market study to be published by the National Bureau. Its primary objective is to analyze the structure and development of the American nonfarm mortgage market between 1945 and 1956. A description of the institutional setting and a discussion of the major economic problems involved are combined in a statistical framework of the flow of funds through the capital market.

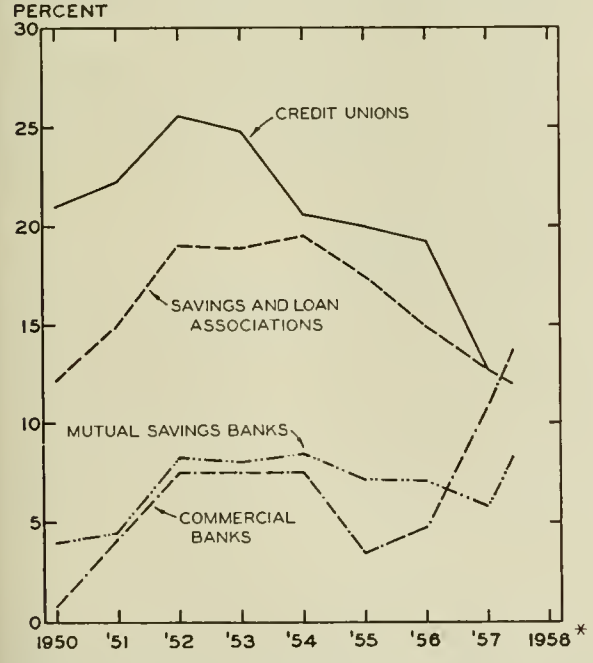
This report provides the most complete and consistent set of statistics now available on total amounts of mortgages outstanding on different types of properties. The study further analyzes mortgage holdings by the main groups of investors, particularly the various financial institutions. The statistics are presented on an annual base for the period from 1945 through 1952 and quarterly for the years 1953 through 1956. The quarterly data for many series have not been previously available, and annual data for other series have been brought up to date and revised. The three series developed by the author on residential, multifamily, and nonresidential mortgage debt are particularly useful for analysis of the mortgage market.

Families with Working Women

According to data released by the Bureau of the Census, the percentage of married couples with both husband and wife working has steadily increased since World War II. In the spring of 1957 there were 10.8 million working couples, or approximately 28 percent of an estimated 38.9 million married couples in the country. The proportion of married couples working was only 20 percent at the end of World War II. In 1957 there were 24.4 million married couples, or 63 percent, still following the traditional pattern of family life with the husband as the breadwinner and the wife as a full-time homemaker.

The number of working mothers with children under 18 years of age in the household amounted to 7 million in the spring of 1957. This total includes an estimated 2.6 million mothers who had children under 6 years of age. Only 18 percent of mothers of children under 6 were working in March, 1957, but this proportion has been increasing since the war. In households with children over 12 years of age as well as children of preschool age, the proportion of working mothers amounted to 21 percent.

RATES OF GAIN IN SAVINGS, SELECTED TYPES OF FINANCIAL INSTITUTIONS



*First four months at annual rate.
Source: National Association of Mutual Savings Banks, *Mutual Savings Banking Today,* p. 9.

Packaging with Fibre Board

The Fibre Box Association has recently released a publication titled *New Directions in Packaging.* This 128-page manual presents new ideas and illustrations in fibre board packaging. In addition to illustrations in surface designs and paintings, there are displays of the variety of articles that are made of corrugated or solid fibre board and other distinctive features.

The association has also compiled statistical data about the industry in *Statistics: Fibre Box Industry 1957.* Copies of these two publications can be obtained from the Fibre Box Association, 224 South Michigan Avenue, Chicago 4, Illinois.

Mutual Savings Banks

The pattern of savings bank activities has changed markedly in the last two years. Through most of 1957 inflationary pressures were strong and demands for credit and capital exceeded the available supply of savings. The downturn in business conditions in late 1957 and early 1958 caused an easing in financial markets.

Mutual savings banks continued to attract a large volume of savings during 1957 with deposits increasing to a level of $31.6 billion by the end of the year. This represented an increase of $1.7 billion, or 5.5 percent, but it is somewhat less than the preceding years (see chart). The rate of flow of net savings to other types of thrift institutions also declined in 1957 with the exception of savings departments of commercial banks. Numerous commercial banks increased their interest rates on time and savings deposits to 3 percent. As a result, these institutions attracted $4.6 billion in savings, representing a rate of increase more than twice that in 1956.

In the early months of 1958 mutual savings banks experienced a sharp increase in their deposits. The gain in the first four months amounted to $800 million, raising total deposits to $32.5 billion. This represented an annual rate of increase of 7.8 percent, which was more than four-fifths larger than the corresponding months of any preceding year on record. This recent accelerated growth reflected both a reduction in deposit withdrawals and an increase in gross new deposits. Many new accounts were opened, so that the number of mutual savings accounts by the end of April, 1958, had reached a record high of over 22 million.

LOCAL ILLINOIS DEVELOPMENTS

With a few notable exceptions, the major indexes of Illinois business activity showed little change in May from the previous month and generally remained below the level of May, 1957. Construction contracts awarded rose 26 percent from April, but they were still 28 percent below the year-earlier level. Coal production increased 4 percent over the previous month, but declined 13 percent from May of a year ago. Farm prices, departing from the national tendency, were up 5 percent from the previous month and up 15 percent from May, 1957.

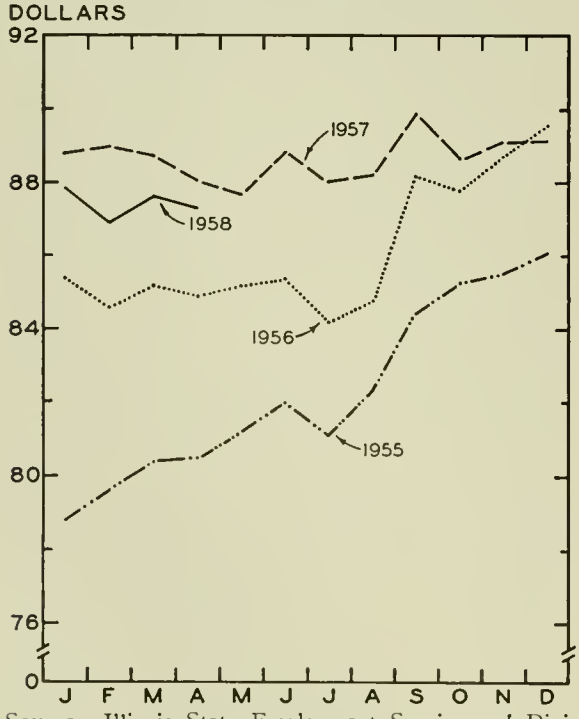
Life insurance sales declined 6 percent from April and were 7 percent below the corresponding month of 1957. Manufacturing employment dropped 2 percent and was 13 percent below May, 1957. Bank debits decreased only slightly from April but ran 7 percent below the level of a year ago.

Average Weekly Earnings

The average weekly earnings of manufacturing industries in Illinois in the first four months of 1958 were $87.41, as compared with $88.63 in the first four months of 1957. This represents an average decline of $1.22 in weekly earnings. The level of earnings thus far this year has been below all of 1957 and the last four months of 1956 (see chart). In September, 1957, average weekly earnings reached their peak for the year and then declined in the following months. After reaching a low of $86.86 in February, 1958, earnings showed some recovery in March and April but remained below the 1957 level.

The decline in average weekly earnings has been due largely to reductions in working hours. This is evidenced by the decline from 40.7 average weekly hours worked in January, 1957, to 38.6 average weekly hours worked in April, 1958. Although this practically eliminated overtime premiums, average hourly earnings increased from $2.18 in March, 1957, to $2.26 in April, 1958.

ESTIMATED AVERAGE WEEKLY EARNINGS IN MANUFACTURING



Source: Illinois State Employment Service and Division of Unemployment Compensation.

Building Boost

In June, 1958, officers of nine of the most important craft unions in the East St. Louis district and the general contractors organization, the Southern Illinois Building Association, signed a ten-point statement of policy that was adopted last February by the AFL-CIO's Building and Construction Trade Department. This agreement is a contractual commitment barring interunion jurisdictional disputes, raiding, product boycotts, and featherbedding or other wasteful practices. As an immediate result of this union-contractor agreement for the area, the Granite City Steel Company announced that it will build a new main office building for itself and the First Granite City National Bank. Shell Oil is also planning a major expansion of its refinery in Wood River.

Prior to this agreement, a group of local businessmen in the East St. Louis district conducted an extensive survey into the reasons why approximately $100 million of new construction had bypassed the area in the last ten years. It was concluded that national contractors were adding 15 percent to 75 percent to their bids in order to cover labor costs resulting from low building trades productivity and a variety of non-contract working restrictions.

Farm Study

A University of Illinois College of Agriculture study based on records of the Illinois Farm Bureau-Farm Management Association shows that on central and northern Illinois farms, volume and efficiency of operations together proved to be the major difference between high- and low-income farms. The final test of efficiency is, however, to hold per-unit production costs at a minimum. It was reported that each year there is a difference of approximately $10,000 in net earnings between high- and low-earning farms of the same size and type of operation.

The conclusions were derived from a sample of records taken from 401 grain farms averaging 360 acres and 276 hog farms averaging 240 acres. The higher-earning grain farms had 20 percent larger crop yields with 6 percent more land in corn and soybeans and 5 percent less in hay and pasture.

Property Tax Statistics

The State Legislative Commission on School Problems recently released its study of property tax statistics covering the eleven-year period 1946 through 1956. It was disclosed that more than half of the yield from property taxes in Illinois goes for education. Of the State's 102 counties, only two show school taxes accounting for less than 50 percent of all property taxes. In 1956 the state-wide average levy for education amounted to 54 percent of all property taxes as compared with 45 percent in 1946. Cook County averaged 46 percent while downstate counties averaged 64 percent. DuPage County ranked highest with 76 percent.

The report further showed that school taxes increased 163 percent between 1946 and 1956, while total property taxes increased 120 percent. State aid for education in 1956 amounted to 19 percent of the school tax total as compared with 11 percent in 1946.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1958

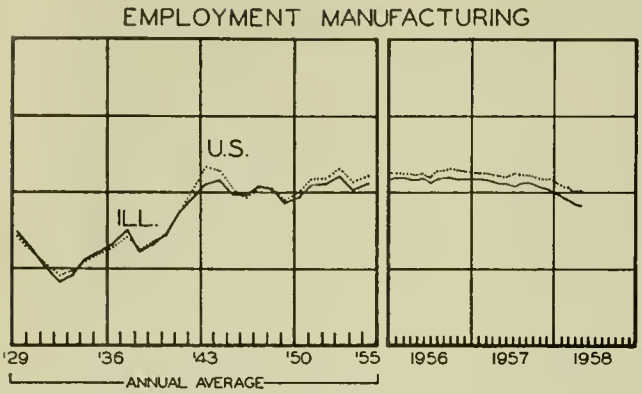
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$27,908[a]	1,019,284[a]	$577,552[a]		$15,086[a]	$12,049[a]
Percentage change from Apr., 1958	+1.4	−3.2	+8.8	+13	−0.3	−10.1
Percentage change from May, 1957	−25.2	−5.8	−4.4	0	−7.1	−6.1
NORTHERN ILLINOIS						
Chicago	$16,559	767,295	$441,238		$13,754	$10,481
Percentage change from Apr., 1958	+11.5	−2.9	+12.3	+16	−0.7	−10.0
Percentage change from May, 1957	−39.9	−6.9	−0.2	−1	−7.3	−6.2
Aurora	$ 594	n.a.	$ 8,353		$ 69	$ 115
Percentage change from Apr., 1958	−27.1		+6.0	0	+11.7	−20.0
Percentage change from May, 1957	+360.5		−3.5	+32	+2.7	−9.9
Elgin	$ 580	n.a.	$ 5,992		$ 45	$ 90
Percentage change from Apr., 1958	+104.9		+3.8	+1	+8.7	+6.1
Percentage change from May, 1957	−24.4		−6.4	+3	+1.8	−2.1
Joliet	$ 572	n.a.	$ 9,798		$ 80	$ 71
Percentage change from Apr., 1958	−23.4		+3.7	+9	+8.1	−20.8
Percentage change from May, 1957	−29.4		−21.8	+2	−3.0	−14.5
Kankakee	$ 141	n.a.	$ 4,832		n.a.	$ 36
Percentage change from Apr., 1958	−69.9		+1.8	n.a.		−21.5
Percentage change from May, 1957	−66.6		−9.4			−18.5
Rock Island-Moline	$1,537	21,803	$10,358		$ 110[b]	$ 124
Percentage change from Apr., 1958	−30.2	−5.8	+4.9	n.a.	+11.9	−30.1
Percentage change from May, 1957	+43.2	−1.3	−2.8		+4.1	+0.7
Rockford	$2,768	41,650[c]	$16,611		$ 172	$ 179
Percentage change from Apr., 1958	+107.3	−3.9	+2.2	+12	+4.5	−18.0
Percentage change from May, 1957	+63.9	−2.0	−18.9	−1	−11.6	−4.1
CENTRAL ILLINOIS						
Bloomington	$ 259	7,704	$ 4,702		$ 67	$ 80
Percentage change from Apr., 1958	+62.9	−6.0	−8.5	n.a.	+6.8	+3.0
Percentage change from May, 1957	+63.9	−4.9	−21.6		+1.9	−6.2
Champaign-Urbana	$ 628	11,481	$ 7,063		$ 74	$ 94
Percentage change from Apr., 1958	−14.0	−4.5	−15.2	n.a.	+5.3	−2.8
Percentage change from May, 1957	+20.5	+15.3	−19.1		+8.7	−1.4
Danville	$1,749	11,534	$ 5,262		$ 47	$ 58
Percentage change from Apr., 1958	+99.0	−7.7	−7.9	−3	+2.3	−3.7
Percentage change from May, 1957	+765.8	+4.9	−23.4	−2	−5.1	−4.3
Decatur	$ 422	31,236	$10,105		$ 113	$ 102
Percentage change from Apr., 1958	−3.2	−4.3	−7.1	+8[c]	+2.0	+4.0
Percentage change from May, 1957	−46.4	−0.3	−25.5	+8[c]	−6.4	+2.9
Galesburg	$ 213	8,248	$ 4,427		n.a.	$ 38
Percentage change from Apr., 1958	−50.7	−15.4	+3.3	n.a.		−0.6
Percentage change from May, 1957	−46.9	−1.7	−5.0			+18.0
Peoria	$ 474	45,004[c]	$15,598		$ 206	$ 210
Percentage change from Apr., 1958	−3.5	−2.2	+0.1	+4[c]	−4.1	−1.3
Percentage change from May, 1957	−47.7	−13.6	−16.6	−8[c]	−10.7	+1.6
Quincy	$ 162	8,653	$ 4,581		$ 46	$ 52
Percentage change from Apr., 1958	−46.4	−6.2	−2.1	−7	+6.0	−23.2
Percentage change from May, 1957	−47.7	−11.2	−13.6	−3	+5.8	+0.9
Springfield	$ 626	32,205[c]	$11,641		$ 117	$ 203
Percentage change from Apr., 1958	−26.1	−1.8	−9.2	+1[c]	−1.5	−10.4
Percentage change from May, 1957	+33.8	+5.0	−20.9	−3[c]	−5.2	−22.2
SOUTHERN ILLINOIS						
East St. Louis	$ 307	11,431	$ 8,377		$ 144	$ 53
Percentage change from Apr., 1958	−76.8	−5.9	+6.8	n.a.	−3.2	+6.2
Percentage change from May, 1957	+20.9	+2.9	−13.9		−5.5	+0.2
Alton	$ 216	12,374	$ 4,455		$ 43	$ 27
Percentage change from Apr., 1958	−71.9	+3.1	+3.9	n.a.	+10.8	−0.8
Percentage change from May, 1957	+96.4	−8.9	−5.4		−0.1	+4.9
Belleville	$ 101	8,668	$ 4,159		n.a.	$ 37
Percentage change from Apr., 1958	−77.4	−5.0	−3.3	n.a.		+5.7
Percentage change from May, 1957	−86.8	+16.2	−15.6			+1.6

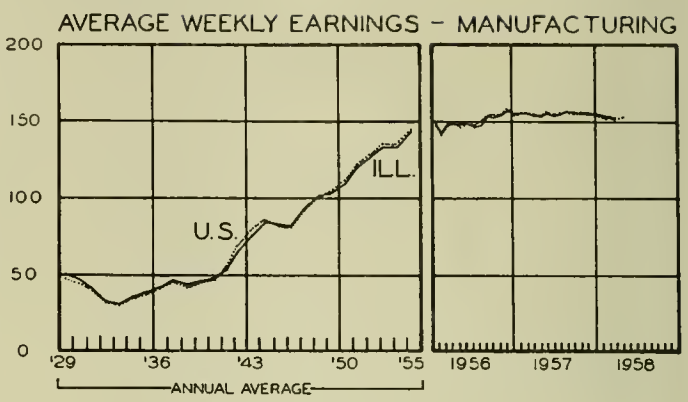
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

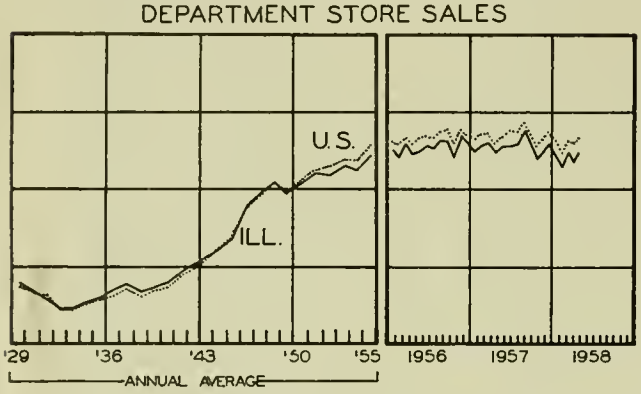
Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for April, 1958. Comparisons relate to March, 1958, and April, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending May 30, 1958, and May 31, 1957.

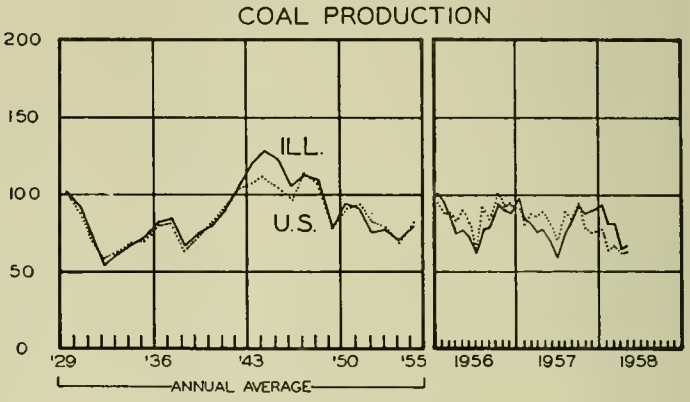
INDEXES OF BUSINESS ACTIVITY

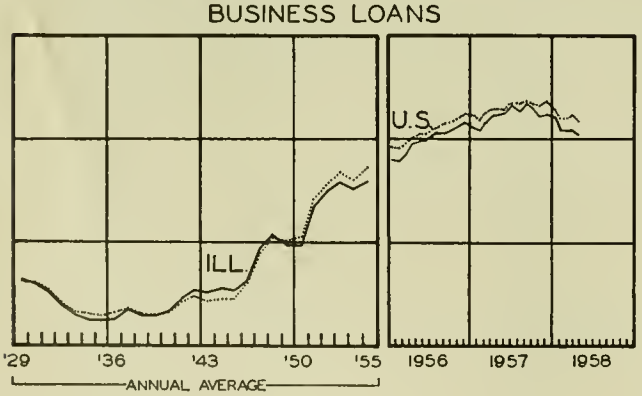
1947-1949 = 100

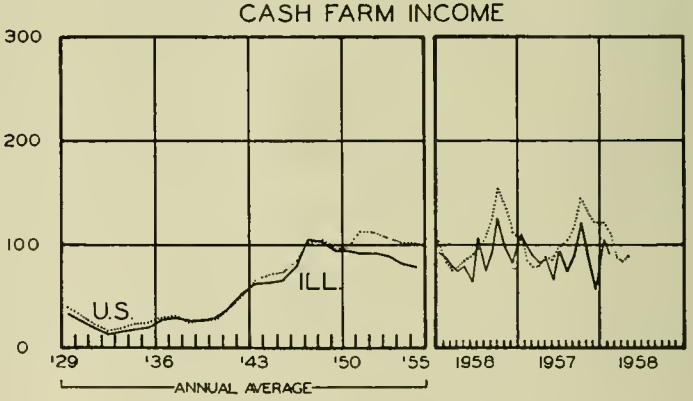


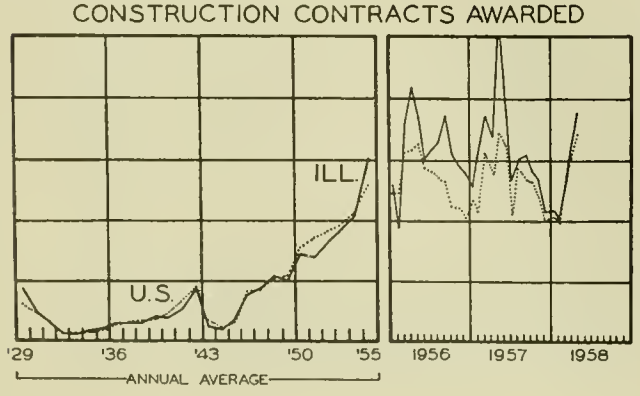


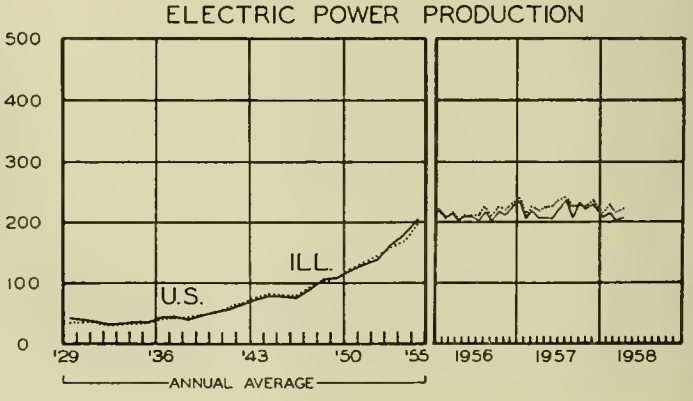












ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

Business conditions continued to show improvement in August. The index of industrial production, which rose 2 points in July, made a further gain in August to 137 percent of the 1947-49 average. Steel production averaged about 1.7 million tons weekly during the month compared with 1.5 million in July, and paperboard output, generally considered a good short-term indicator of the direction of economic activity, moved above year-ago figures. Although automobile production dropped to the lowest point for the month since 1941, this was in part due to early shutdowns for model changeovers. Reduced output lowered auto stocks in dealers' hands despite slow retail sales. Department store sales, when adjusted for seasonal variation, have shown strong gains in the last two months and freight carloadings have recovered considerably.

Upturn in Business Investment?

The latest estimates of business expenditures on new plant and equipment suggest that the second and third quarters of 1958 were the low periods in the current recession for this important measure. Anticipated outlays during the third quarter reported by business in late July and August indicate an adjusted annual rate of $30.3 billion, the same as the actual rate for the second quarter. The rate now anticipated for the fourth quarter is placed at $31.0 billion, up $2 billion from the June forecast.

The estimate for 1958 as a whole was raised only $200 million by the latest forecast, since the actual rate for the second quarter proved to be $1.1 billion lower than anticipated in the June report. The current survey warns that in recent quarters the anticipations have tended to overstate the actual expenditures.

Construction Booms

Outlays for new construction rose seasonally in August, reaching an all-time high of $4.8 billion, 3 percent above the corresponding month of the past year. This brought the total for the first eight months of 1958 to $31.5 billion, a slight increase over the like period of 1957 in dollar terms, although not in physical volume.

Publicly owned construction accounted for most of the month's gain over August, 1957, and for all that of the first eight months over the corresponding period last year. Continued expansion in highways and public housing projects reflected the increasing role of federal funds, primarily grants-in-aid to states and localities.

Private construction in the first two-thirds of 1958 was only 1 percent below the first eight months of 1957. Greater dollar outlays for residential construction, particularly apartments for rental purposes, offset much of the drop in industrial building.

Manufacturers' Sales, Orders Improve

On a seasonally adjusted basis, sales by manufacturers amounted to $26.3 billion in July, an increase of $600 million over June and $1.1 billion over May. The biggest gains were made in the durable goods industries. New orders received by manufacturers, at $26.3 billion in July after allowance for seasonal factors, were up $500 million from June and $1.3 billion from May. Although improvement in durable goods industries accounted for the increase from May to June, nondurable goods industries enjoyed the biggest gains from June to July. On an unadjusted basis, unfilled orders, most of which occur in the durable goods industries, rose $300 million to $46.7 billion in July, the first increase in many months.

The book value of manufacturers' inventories continued to decline in July although at a slower pace. A drop of $400 million brought the seasonally adjusted total to $49.8 billion, with durables and nondurables sharing equally in the decline.

Installment Debt Off

On a seasonally adjusted basis consumer installment debt declined again in July, but the reduction of $32 million, which brought the total down to $33.1 billion, was the smallest in the last six months. In June consumers reduced their installment obligations by $127 million.

A drop of $123 million in auto loans outstanding accounted for all of the July curtailment of installment debt, more than offsetting increases in the adjusted amounts for other consumer goods and for personal loans.

Unemployment Continues High

Despite signs of improved business, the rate of unemployment in August reached a new high for the current recession of 7.6 percent on a seasonally adjusted basis. Although the number of unemployed workers fell 600,000 to 4.7 million, this was less than the normal seasonal decrease.

However, total employment rose by nearly 200,000 to 65.4 million, contrary to the normal slight seasonal decline. Factory employment went up 300,000 to 15.5 million, but this was little more than the normal seasonal increase for August.

SHALL ILLINOIS BORROW TO FINANCE BUILDINGS? · · By H. K. Allen · · Page 6

ILLINOIS BUSINESS REVIEW

Published eleven times a year by the
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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

Need for Positive Foreign Policy

The deterioration of our foreign policy into negativism approaches the ultimate in the declaration of intent to defend the offshore islands against the Chinese Reds. These islands are not important either for the defense of Formosa or for reinvasion of the mainland by the Chinese Nationalists on Formosa. Nevertheless, we have permitted ourselves to be led into a position that risks all-out war.

There seems to be a growing feeling in Washington that power is useless if not used. It may be used for good purposes, if intelligently and realistically applied, but fears founded in past incidents suggest that if it is not used at all, events may take an unfavorable turn by default.

Developments thus pose a potential threat for the entire world. Power directed by opposition alone may unintentionally lead to war. Willingness to risk war in desperate moves to "save" a bit of worthless territory for an impotent ally loses friends; and each loss of friends makes the position more critical. Desperation tends to mount toward the point where it may be held "necessary" to carry war to the centers of enemy power. But the only means of carrying on such war are atomic. The risk becomes a risk of total destruction. This is the implication of developments in the summer of 1958.

A Solution Must Be Constructive

In a recent pamphlet, the National Planning Association joins other thoughtful observers of the international scene in concluding that the only way out of present difficulties is through the adoption of a positive foreign policy. Concentration on defensive counter-measures leads inevitably to tactics that are "sometimes doctrinaire and inflexible, and at other times vacillating, negative, and without clear strategic purpose."

It is not suggested that the negative aspects can be put aside entirely. There will always be a need to restrain aggressive forces. But liberties have been and may again be won by force, which serves at times to produce necessary change. Without constructive goals, policy faces hopeless dilemmas, first, in being unable to eliminate points of vulnerability and, second, in deciding which changes must be resisted and which are consistent with a generally peaceful and productive world.

Our embarrassment in this lack has been aggravated by the transformation of the Cold War into its present "competitive coexistence" phase. The Soviets, in shifting to this line, have ostensibly renounced atomic warfare, whereas, to the dismay of many friendly nations, we refuse to do so. Furthermore, the Communist program is offered as a solution to many internal and international problems and this induces citizens within many countries to work on their side. Ultimately, failure may leave them disillusioned, but the causes of success or failure are so complex that any clear demonstration of inferiority within the foreseeable future is unlikely.

One World — In Better Order

The NPA policy statement concludes that the ultimate goal of a positive foreign policy must be "a new and better system of world order." But it immediately discounts this by stating that "the United States does not have, nor can it have, any detailed blueprint of what such a system should look like." Perhaps the qualification is too sweeping. Although no detailed blueprint is available, we should be able to define at least the broad outlines of the social, political, and economic relations between nations that would have to exist for the realization of such a goal.

It seems symptomatic of how completely the Cold War permeates our thinking that when we try to be specific about our vision for the future, we do so in essentially partisan terms. There may be an element of realism in this, since to ignore those who are strongly prejudiced may make it impossible to accomplish anything at all. Nevertheless, it is not conducive to a final solution. Only if such actions as providing aid to neutral nations and forming regional alliances can eventually merge into future patterns of mutual advantage for all can they contribute to reaching the goal.

When we woo neutral nations with foreign aid programs intended to line them up on our side, we are not working for satisfactory world relations. The recent history of our aid programs shows how they may lead recipients into playing one side against the other; and the whole history of bribery through the ages shows that it cannot produce trustworthy adherents. Our economic surpluses — and we have large surpluses today despite all the loose talk about inflation — must indeed flow out into the building of stronger economies in other parts of the world. We may even expect a reasonable return on our investments. But trust and cooperation need not be the consequence of "gifts" distorted by efforts to gain military or political advantage.

Similarly, trade and investment programs confined to a specific group of countries are not necessarily constructive in intent or consequences. Alliances, barter arrangements, and other devices that exclude some countries from world markets are basically devices of economic warfare that do not fit the pattern of a peaceful world.

It is obviously idealistic to talk of achieving "one world" when the split between the West and the Communist Bloc is seemingly so fundamental. But recognizing that it is not necessary to oppose all the actions and proposals of the other is a minimum prerequisite to defining the conditions for a coexistence which may be peaceful and beneficial rather than competitively destructive.

Technology Transforms the World

Ideological differences are often held to be the main obstacle to any improvement in international relations. There is little in recent developments, however, to sup-

(Continued on page 8)

BROOMCORN — A VANISHING ILLINOIS INDUSTRY

Broomcorn, the fiber-like straw from which brooms are fabricated, is gradually disappearing from Illinois fields. Formerly second only to Oklahoma in broomcorn tonnage, Illinois has been surpassed by four other Western states since 1917. The decline of this once-vigorous Illinois industry is to be attributed to the fact that broomcorn is a "migratory" plant and historically has been shifted to cheaper land and less populated areas. Illinois farmers have found that the hand labor necessary for cultivating broomcorn, the financial promise of other crops, and the uncertainties connected with broomcorn production have made it desirable for them to shift their lands to other use.

The plant, which belongs to the sorghum family, can be grown in most states of the Union, but production areas have recently been concentrated chiefly in Oklahoma, Colorado, Texas, New Mexico, Kansas, Illinois, and California, in that order. Although it resembles Indian corn, broomcorn bears no ears and grows to a height of 8 to 12 feet in Illinois. Some Southern states have developed a dwarf variety to facilitate cutting the brush from the stalk.

The broomcorn industry was not established commercially in America until 1797 when a Massachusetts farmer planted 30 acres of seed of an East Indian variety. Nearly all broomcorn grown today is of this type. Most early brooms, made in small lots for local use, were assembled manually in the form of "stalk" brooms, that is, a handful of fibers furled around a handle.

The manufacture of brooms in factories (at first called "broom shops" began about 1850 and received further impetus from the development of binding, clipping, and sewing machinery in the following two decades. Since 1870 the bulk of broom production has been in factories, although most of these have characteristically remained small. In addition, there have always been two or three times more "buckeye" shops (one- or two-man establishments) than factories; most of these use manual procedures.

In contrast to the mechanization of broom manufacture, broomcorn harvesting techniques have been altered little since 1797. Broomcorn is planted like any other field crop, but harvesting is expensive because individual stalks must be cut or pulled by hand.

Today's Industry

For the forty years prior to World War II, the industry had a relatively constant annual sale of 50 million brooms of all types (for example, household, industrial, whisk, and street-sweeping). But the growing influx of postwar competition from synthetic fibers and vacuum and air cleaners, as well as changing styles, such as wall-to-wall carpeting and tile-linoleum flooring, have cut into the market for corn brooms, although total demand for brooms has changed little. Moreover, rural electrification has brought mechanical cleaners to the farm wife, thus reducing her need for brooms.

The total amount spent yearly for all types of brooms is unknown. However, a survey has shown that total domestic expenditures for household floor brooms, including those with synthetic fibers, were about $80 million in 1956; approximately 60 percent of these sales were made in grocery stores.

Last year there were an estimated 300 broom factories in the nation and another 500 to 600 "buckeye" shops. The *1954 Census of Manufactures* reported 332 factories employing 4,470 persons. That many of these workers are seasonally employed is reflected in the $2,200 mean annual wage.

With the development of substitutes for brooms, the production of broomcorn has gradually diminished since the banner year 1923, when 81,400 tons were sold in the seven leading producer states. By 1956, the figure had fallen to 20,300 tons. Today, the nation's broomcorn crop is produced on fewer than 10,000 farms compared with twice that number a generation ago. Total acreage harvested has declined more than two-thirds from the 536,000 planted in 1923. The total United States crop was valued at only $10 million in 1957.

Illinois — Former Broom Stronghold

The broomcorn industry in Illinois is believed to have begun about 1860 in the Douglas County area. Illinois land was perfect for the plant. For the next thirty years Illinois grew a large percentage of the broomcorn used in the United States, most of it being produced in the Arcola-Charleston-Mattoon area. Chicago became the most important manufacturing center of brooms and also provided an abundant market.

Although the State's ranking in broomcorn production has dropped sharply since 1935, it still has 23 smaller broom factories in the Central Illinois area as well as an additional 60 to 70 "buckeye" shops. The remaining centers of broom-making are Chicago, Paris, Toledo, Arcola, and Mattoon. Counties holding on to a vestige of the once-dynamic crop are Coles, Cumberland, Douglas, Jasper, and Moultrie.

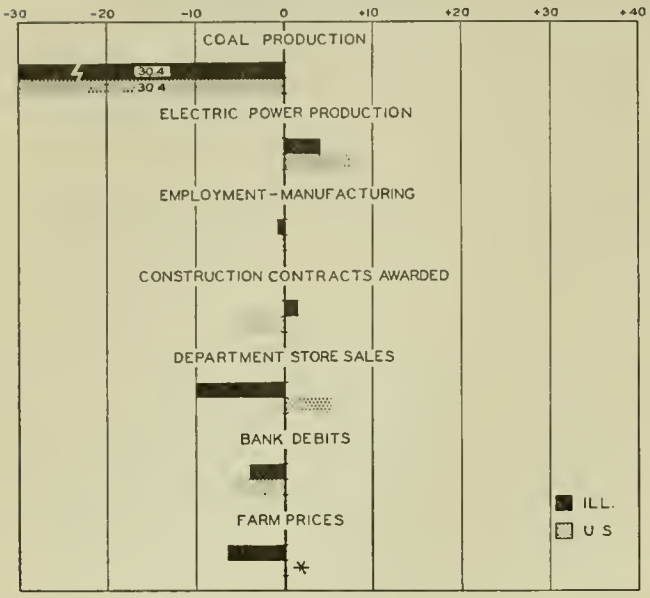
Today's annual Illinois broomcorn crop of between 1,000 and 1,500 tons, which brings $500,000, is produced by fewer than 800 farmers on approximately 4,000 acres. Illinois farms still produce twice as much per acre as farms in other states — about 600 pounds under favorable conditions. Despite the State's dwindling role as a broomcorn producer, it is a leading seed supplier, growing an estimated 80 percent of all broomcorn seed commercially produced and used in the United States in what is generally referred to as the Central Illinois "District."

The future of the broomcorn industry is somewhat uncertain. The sale of brooms has never increased in proportion to population gains and the limited total demand has been relatively stable over the past half-century. Moreover, brooms from corn brush have been declining in recent years with the growing popularity of new substitutes. Also, there is little possibility of creating a foreign market, inasmuch as the crop can be grown in most areas of the world. Thus, the growers of broomcorn and the manufacturers of corn brooms face the prospect of a continuing shrinkage in the market.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1958, to July, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	July 1958 (1947-49 =100)	Percentage change from June 1958	Percentage change from July 1957
Electric power[1]	217.5	+ 4.1	− 2.2
Coal production[2]	49.1	−30.4	−17.4
Employment—manufacturing[3]	91.2	− 0.8	−12.8
Weekly earnings—manufacturing[3]	156.0[a]	+ 1.6	+ 0.5
Dept. store sales in Chicago[4]	124.0[b]	+ 9.7	+ 1.6
Consumer prices in Chicago[5]	127.6	+ 0.1	+ 2.8
Construction contracts awarded[6]	346.9	+ 1.6	+29.8
Bank debits[7]	182.0	− 4.1	− 2.9
Farm prices[8]	84.0	− 6.7	0.0
Life insurance sales (ordinary)[9]	297.7	+ 8.7	+ 8.0
Petroleum production[10]	129.1	+ 3.6	+26.5

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] June data; comparisons relate to May, 1958, and June, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	July 1958	Percentage change from June 1958	Percentage change from July 1957
	Annual rate in billion $		
Personal income[1]	358.9[a]	+ 2.0	+ 2.0
Manufacturing[1]			
Sales	315.6[a]	+ 2.3	− 3.3
Inventories	49.8[a, b]	− 0.8	− 7.4
New construction activity[1]			
Private residential	19.5	+ 5.7	+ 2.6
Private nonresidential	17.8	+ 3.3	− 3.3
Total public	18.0	+ 5.7	+10.8
Foreign trade[1]			
Merchandise exports	16.9[c]	−14.0	−16.8
Merchandise imports	12.4[c]	− 2.5	+ 5.4
Excess of exports	4.5[c]	−35.4	−47.6
Consumer credit outstanding[2]			
Total credit	43.0[b]	− 0.2	+ 1.6
Installment credit	33.1[b]	+ 0.2	+ 1.3
Business loans[2]	29.5[b]	− 2.7	− 6.9
Cash farm income[3]	29.1[c]	+ 6.0	− 3.5
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	133[a]	+ 1.5	− 8.3
Durable manufactures	141[a]	+ 1.4	−13.0
Nondurable manufactures	130[a]	+ 0.8	− 0.8
Minerals	114[a]	+ 1.8	−10.9
Manufacturing employment[4]			
Production workers	93	+ 0.4	−11.1
Factory worker earnings[4]			
Average hours worked	98	0.0	− 1.5
Average hourly earnings	160	+ 0.5	+ 2.9
Average weekly earnings	158	+ 0.5	+ 1.3
Construction contracts awarded[5]	364	− 5.6	+24.3
Department store sales[2]	140[a]	+ 5.3	+ 1.4
Consumer price index[4]	124	+ 0.2	+ 2.6
Wholesale prices[4]			
All commodities	119	0.0	+ 0.8
Farm products	95	− 0.6	+ 2.4
Foods	113	− 0.7	+ 5.1
Other	126	+ 0.3	0.0
Farm prices[3]			
Received by farmers	94	0.0	+ 3.3
Paid by farmers	122	0.0	+ 3.4
Parity ratio	83[d]	− 1.2	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for June, 1958; comparisons relate to May, 1958, and June, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Aug. 30	Aug. 23	Aug. 16	Aug. 9	Aug. 2	Aug. 31
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,390	1,380	1,346	1,328	1,283	1,672
Electric power by utilities...mil. of kw-hr.	12,272	12,486	12,851	12,707	12,619	12,147
Motor vehicles (Wards)...number in thous.	26	35	73	81	79	139
Petroleum (daily avg.)...thous. bbl.	6,863	6,875	6,839	6,836	6,545	6,766
Steel...1947-49=100	100	98	95	92	91	122
Freight carloadings...thous. of cars	645	634	626	619	622	745
Department store sales...1947-49=100	149	134	124	120	114	144
Commodity prices, wholesale:						
All commodities...1947-49=100	118.7	118.8	119.0	119.2	119.4	118.4[a]
Other than farm products and foods...1947-49=100	125.9	125.9	126.0	126.1	126.0	126.0[a]
22 commodities...1947-49=100	86.2	86.5	87.1	87.6	87.2	88.4
Finance:						
Business loans...mil. of dol.	29,867	29,932	29,677	29,597	29,545	32,012
Failures, industrial and commercial...number	246	272	262	290	271	262

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for August, 1957.

RECENT ECONOMIC CHANGES

Farm Assets

Farm assets rose to a new record value of $187 billion on January 1, 1958. This represented an increase of 5.7 percent, or about $10 billion, over a year earlier. Financial assets, automobiles, and household goods owned by farmers, as well as all assets used directly in farm production, are included in the total.

As in other recent years, the 1957 increase in farm values and equities reflected principally the continuing upward trend in farm real estate values. Nearly $7 billion of last year's rise was attributable to this source. In most states agricultural real estate values rose 5 to 8 percent, with values in Florida going up by 16 percent.

Another important factor was an increase of about $3 billion in the value of livestock on farms as the result of higher prices. The value of other assets also grew during the year. Machinery, motor vehicles, and household furnishings rose about $800 million, while financial assets went up about $300 million. However, the value of crop inventories dropped enough as the result of lower prices to offset the increase in these other assets. The physical inventories of crops were actually higher than in the previous year.

Employment

Unemployment fell by 600,000 in mid-August, reducing the total number of jobless to 4.7 million. The drop, however, was less than is usually expected at this time of year, and as a result, the seasonally adjusted rate of unemployment for the month rose to 7.6 percent of the labor force. This was the highest rate since the beginning of the recession last summer and the second straight month in which it has increased. The mid-July rate was 7.3 percent; in August, 1957, it was 4.3 percent.

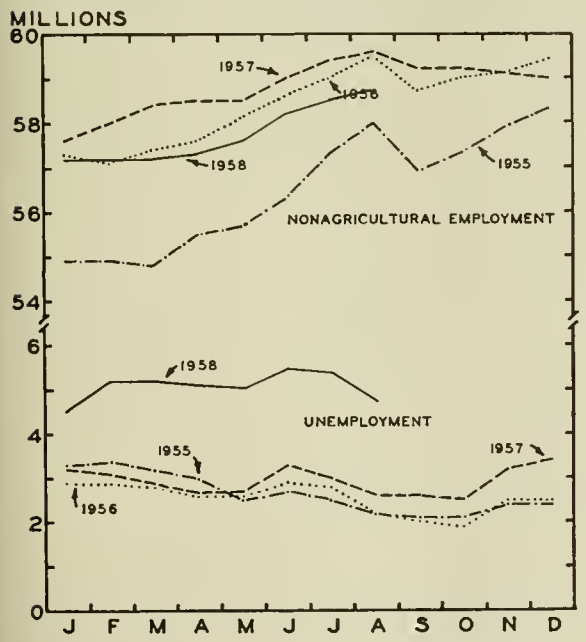
The actual number of unemployed, on the other hand, was down for the second consecutive month, and at its August level, was substantially under the 5-million mark for the first time since January of this year (see chart).

Employment increased by about 200,000 over July and reached its highest point of the year in August. However, employment was still a million below the year-ago level.

Census data, in thousands of workers, are as follows:

	Aug. 1958	*July 1958*	*Aug. 1957*
Civilian labor force	70,067	70,473	68,994
Employment	65,367	65,179	66,385
Agricultural	6,621	6,718	6,823
Nonagricultural	58,746	58,461	59,562
Unemployment	4,699	5,294	2,609
Seasonally adjusted rate	7.6	7.3	4.3

NONAGRICULTURAL EMPLOYMENT AND TOTAL UNEMPLOYMENT



Source: Bureau of the Census.

Gross National Product Up

Gross national product rose to an annual rate of $429.0 billion in the second quarter of this year. This was about a billion dollars more than had been estimated earlier by the President's Council of Economic Advisers and $3.2 billion above the figure for the first quarter of the year. However, the latest GNP total was still well under the peak rate of $445.6 billion reached in the third quarter of 1957.

Accounting for the second quarter improvement in the GNP rate over the previous quarter were increases in the rates of personal consumption expenditures and government purchases of goods and services, along with a slowdown in the rate of inventory liquidation. Advances in these components of GNP more than offset continued declines in investment for new construction and producers' durable equipment.

Personal Income by States

Personal income reached record dollar volumes in every state in 1957, reflecting the high levels of activity which prevailed in the economy through the first three quarters of last year.

For the continental United States, personal income was about 5 percent higher in 1957 than it was in 1956. Most of the states experienced a similar percentage increase. The largest advance, 19 percent, occurred in South Dakota. Other states in which personal income was up by more than 10 percent during the year were Nebraska, Iowa, and New Mexico.

On a per capita basis, personal income in 1957 amounted to about $2,027 in the country as a whole. Incomes averaged more than $2,500 per person in Connecticut, Delaware, New York, California, New Jersey, and the District of Columbia.

State income figures for 1958 will not be available until mid-1959, but some idea of the relative impact of the 1957-58 recession on the various regions of the country may be obtained from figures on manufacturing employment. Those regions in which manufacturing is of greatest importance as an income source are the ones which have also been most severely hurt by the recession. For example, in the Great Lakes region, earnings from manufacturing amounted to about 39 percent of all civilian earnings in the area in 1957; this region suffered the largest decline, 14 percent, in manufacturing employment between the first five months of 1957 and the corresponding period of 1958. Other hard-hit regions were the New England and the Mid-Atlantic states. The impact of the recession in these areas will be reflected in the 1958 personal income figures.

SHALL ILLINOIS BORROW TO FINANCE BUILDINGS?

H. KENNETH ALLEN, Professor of Economics

In addition to voting upon candidates for political offices, the voters of Illinois will have the privilege and responsibility at the general election on November 4, 1958, of approving or rejecting four special issues. Two of the separate ballots will be proposals to amend the constitution — one pertaining to the judicial article and the other to the article which relates, among other subjects, to the election of county officers. These proposed amendments would involve far-reaching changes in the organization and operation of our court system and would permit the electors of a county, if they so desire, to re-elect their sheriff or treasurer.

Two other proposals involve a question of approving or rejecting a state bond issue. One of these proposals, if approved, would authorize the State of Illinois to contract a debt of $75,000,000 to provide payment of compensation to Korean veterans. The other would authorize the State of Illinois to issue bonds to the amount of $248,000,000 to provide funds for making permanent improvements at specified state institutions.

Seldom, if ever before, have the citizens of Illinois been required at a single election to approve or reject so many vitally important proposals. The following discussion is presented for the purpose of clarifying the issues pertaining to one of the four propositions, namely, the proposal to authorize a bond issue for buildings and other permanent improvements at state institutions.

Proposal for Permanent Improvements

The proposal to contract a debt of $248,000,000, if approved, provides that the proceeds from the sale of the bonds shall be allocated according to the amounts indicated to institutions under the management, jurisdiction, and control of the following:

Department of Public Welfare	$ 81,000,000
Board of Trustees of University of Illinois	86,000,000
Board of Trustees of Southern Illinois University	41,000,000
Teachers College Board	40,000,000
Total	$248,000,000

The allocation can be further reduced to two general categories, namely, the Department of Public Welfare and the institutions of higher learning. In accordance with the constitutional requirement, the proposal for the bond issue is accompanied by a proposal for providing funds to pay the interest and principal.

Revenues for this purpose are to be derived from the levy of a direct annual state tax upon all real and personal property in the State subject to taxation for such amount as shall be necessary to pay interest and principal. Proceeds of this tax are to be paid into the State Building Bond Retirement and Interest Fund in the state treasury. However, to the extent that funds are available in the general revenue fund of the State, the General Assembly is authorized to transfer any such funds to the Building Bond and Retirement Fund. To the extent that funds are so transferred, the state property tax levy is to be reduced. Sponsors of the measure hope that funds for interest and principal can be obtained from the general revenue fund and that property tax levies will be minimized or avoided completely.

Need for Buildings

Several factors are responsible for the abnormally large need for state buildings in the years immediately ahead. In the first place, construction dwindled almost to a standstill during the World War II years because of the critical shortage of labor and building materials. As a result of continued shortages of materials and financing problems in the postwar period, it has not been possible for the State to catch up with its normal building program. Seriously crowded conditions exist, therefore, in mental and other welfare institutions, and in many buildings in state institutions of higher learning.

The problem is further complicated by the marked increase in the birth rate which began in the middle 1940's and by the increasing number of persons who require institutional care. Elementary and high schools have already felt the impact of the increased birth rate, and the "war babies" will begin enrolling in colleges and universities within the next two or three years. It is estimated that enrollment in institutions of higher learning will double in the next ten to fifteen years. It is logical to assume that state universities will receive in the future, as they have in the past, more than a proportionate share of the increase.

The needs of state institutions of higher learning for buildings can be illustrated by reference to the University of Illinois. The best estimates available indicate that enrollment at the Urbana-Champaign campus will increase from 18,000 to approximately 30,000 students between 1958 and 1969 and that an increase from 4,000 to about 20,000 students at the Chicago Undergraduate Division will occur during the same period. On this basis, University officials presented a ten-year building plan at the July, 1958, meeting of the Board of Trustees which involves an outlay of $198.5 million. The proposal was approved.

This program calls for $116 million in buildings on the Urbana-Champaign campus, $32.5 million for the Chicago Professional Colleges, and $50 million for the proposed new Undergraduate Division at Chicago.

To initiate the long-range building plan, the President recommended and the Board of Trustees approved a budget request for the 1959-61 biennium of $54,879,000. If the proposed bond issue is approved, part or all of the funds for the 1959-61 building budget are expected to come from that source. Otherwise, any funds appropriated for the purpose would have to be financed from general tax revenues.

The University's request for the next biennium, as well as the ten-year plan, is supported by detailed information on crowded conditions and expected enrollment increases in specific colleges.

Although the details vary, the needs of the other state institutions of higher learning and the Department of Public Welfare are as urgent as those of the University of Illinois.

Borrowing Versus Pay-as-you-go

Since large sums will have to be provided within the next few years to enable the various state institutions to maintain the quality of their services, the question arises whether such funds should be obtained from borrowing or from current tax revenues. The latter method is commonly referred to as the "pay-as-you-go" plan. Advocates

of financing needed public buildings from current tax revenues point out that the interest and principal on bonds must ultimately be paid out of tax revenues and that it is preferable to use tax revenues in the first instance. They assert, moreover, that interest costs on bonds greatly increase the over-all cost of the project.

That the pay-as-you-go method should be used to finance annually recurring expenditures is widely accepted among fiscal students. Normal operating expenditures should be financed from current tax revenues. Whether capital improvements such as buildings and other long-lasting facilities should be financed exclusively from current tax revenues depends upon the amount of the outlay and the type of governmental unit involved.

For a small school district to finance a new elementary school building out of current tax revenues would obviously impose too great a strain upon the district's tax resources. In such a case, the spreading of the cost of the new building over several years is a justifiable method of financing, similar to a homeowner who typically makes payments on a mortgage. A further advantage of borrowing in a situation of this sort is that it spreads the cost of the project out over a period of years and requires taxpayers of the future to share the cost. Borrowing, of course, may increase the over-all cost, but this is not objectionable if the benefits derived from the facility during its useful life equal or exceed the total cost. If financing the building from current tax revenues should require deferment of construction, an increase in building costs could easily offset much, if not all, of the added cost of interest from borrowing. Any postponement of construction of a school or other public building that might result from a decision to finance it from current tax revenues rather than from borrowing would accentuate the inadequacy of existing facilities.

Past Policy in Illinois

Although borrowing is justifiable to finance buildings in the case of small governmental units, it does not follow that this method of financing is acceptable under normal conditions for large governmental units. A large governmental unit such as the State of Illinois which needs some new buildings each year should normally be able to schedule construction in such a manner that the cost could be borne out of current tax revenues. Buildings are an annually recurring item in the budget of the State of Illinois and, under ordinary circumstances, borrowing cannot be justified as a method of financing them.

In accordance with the foregoing principle, the State of Illinois has not borrowed to finance state buildings since the constitution of 1870 was adopted. State bond issues have been approved — one for waterways and two each for highways, emergency relief, and veterans' bonuses — but none for buildings. Traditionally the State of Illinois has pursued the sound policy of planning construction of buildings in such a manner that they could be financed out of current tax revenues.

Since the state government has not borrowed to finance buildings in many decades, the question logically arises as to why a practice admittedly sound under normal conditions should be departed from at this time. The answer to this question hinges upon the term "normal conditions." For reasons beyond the control of state officials, a large backlog of need for state buildings has accumulated since World War II. In addition to the present critical shortage of space in mental institutions, in other institutions under the jurisdiction of the Department of Welfare, and in many of the state institutions of higher learning, there is a firm prospect of a marked increase in the need for such facilities in the years immediately ahead. For the General Assembly to meet these needs from current tax revenues in the next few years does not appear feasible.

It may reasonably be expected that state tax revenues will increase in the years just ahead, but it is not reasonable to assume that they will increase sufficiently to permit liquidation of the present backlog of building needs, finance current capital improvements, and also provide increased funds that will be necessary for other state purposes. To attempt to finance both existing and future needs from available tax revenues seems likely, the proponents of the bond issue contend, to result in increasing the shortage of buildings. If the bond issue is approved, and barring unforeseen circumstances, the state government should henceforth be able to keep abreast of its building needs by financing them from current tax revenues as has been the practice in the past.

As an alternative to borrowing, some of the proponents of the pay-as-you-go plan have proposed that the necessary funds be obtained by increasing the rate of the retailers' occupation or sales tax from the present 2½ to 4½ cents for a two-year period, with the increased revenues to be earmarked exclusively for the needed buildings. This plan would obviate interest costs, but it would place the entire burden of financing the buildings upon the taxpayers during a short period of time. The state and local tax system, moreover, is in urgent need of revision, and it is possible that changes can be made within the next few years that will reduce the reliance upon the sales tax as a source of state revenues. Exclusive reliance upon the sales tax for financing the building program for which the bond issue is proposed would place a disproportionate share of the burden upon the lower income groups.

State Debt Position

Whether or not the proposed bond issue should be adopted depends somewhat upon the size of the present state debt. As in the case of tax burdens, the full impact of the public debt burden is, of course, determined by the combined federal, state, and local debt. Of these, the federal debt is by far the largest, and the state debt is the smallest. The local debt varies widely among the different local governmental units.

Exclusive of a small amount of bonds which have matured but which have not yet been presented for payment, the outstanding indebtedness of the State of Illinois on September 1, 1958, was as follows:

Service Recognition Bonds Series A..	$174,999,000
Service Recognition Bonds Series B..	15,700,000
Highway 4 percent bonds.....	7,000,000
Total outstanding	$197,699,000

These statistics do not include the revenue bonds of various state agencies, that is, bond issues that are to be retired from the earnings of the facilities. Revenue bonds are not obligations of the State of Illinois, but of the agencies which issued them. The burden of the State of Illinois debt becomes more significant when it is expressed in per capita terms and compared with that of other wealthy, industrial states. In the accompanying table are presented statistics on per capita state debt in Illinois and selected other states in 1957. The per capita debt for Illinois is $21.65 as compared with $29.74 for the 48-state average. The over-all average would be even higher except for the fact that several states are prohibited by constitutional provisions from incurring direct state indebtedness. Of the group of states included in the table, only Ohio has a lower per capita debt than Illinois,

PER CAPITA NET LONG-TERM STATE DEBT IN ILLINOIS AND SELECTED OTHER STATES, 1957[a]

State	Per capita debt	Per capita personal income	Percent
48-state average	$29.74	$2,025	1.5
California	33.58	2,523	1.3
Illinois	21.65	2,447	0.9
Michigan	27.11	2,141	1.3
New York	40.07	2,578	1.6
Ohio	18.19	2,255	0.8
Pennsylvania	28.63	2,112	1.4

[a] Includes full faith and credit debt only.

Sources: Bureau of the Census, *Compendium of State Government Finances in 1957*; U. S. Department of Commerce, *Survey of Current Business*, August, 1958, p. 13.

the amount being $18.19. The figures for New York and California are $40.07 and $33.58 respectively, as compared with $21.65 for Illinois.

The percentage of per capita state debt in Illinois to per capita personal income is 0.9 percent, whereas the comparable figure for the 48-state average is 1.5 percent. Again, only Ohio has a lower percentage than Illinois, the figure for Ohio being 0.8 percent. Whether in terms of absolute amounts, per capita debt, or percentage of per capita debt to per capita personal income, the position of Illinois is favorable. Relative to resources, the present indebtedness of the State of Illinois is moderate, and the increase that would be incurred by approving the proposed bond issue could be carried in stride.

Conclusion

Because of the critical need for the buildings and the great difficulty of financing them from current tax revenues, a strong case can be made for the use of borrowing. The final decision relative to the proposed bond issue must, of course, be made by the State's voters at the general election on November 4, 1958.

The importance of voting on the proposed bond issue is emphasized strongly by the requirement that the proposal must receive a favorable vote by a majority of all voters at the election who vote for members of the General Assembly. Approval by a majority of those who vote on the proposed bond issue itself is not sufficient. By failing to vote either for or against the bond issue proposal, a voter will in effect be voting against the proposition.

Need for Positive Foreign Policy

(Continued from page 2)

port this view. Through a decade of Cold War, the ideological conflict has been thrust aside by a struggle between two great nations seeking to gain pre-eminence. The most important change from the traditional pattern of power politics has been produced by the advance of technology, which has made potential wars of the future incomparably more dangerous to both sides.

It might be argued that the difference in political ideology is more important than that in economic ideology. But our support for dictators in other areas when it has seemingly been advantageous negates this argument.

The transformation brought about by modern technology is pervasive, and among its effects is the undermining of the old ideological conflict. New standards of efficiency require that activity be organized in accordance with certain forms that have no regard for social or political theory. The conditions for progress are clearly tied to the use of power-driven machinery. In industry, as in warfare, mere numbers count for little unless they are equipped for utilizing power. The threat to the West derives not from the large Communist populations but from the weapons forged by capital-using methods similar to those employed here.

Material progress is today an almost universally accepted goal. It pervades the policies of underdeveloped countries, who seek to expand the energy sources from which usable power might be obtained. Both the United States and Russia promise rapid progress to countries that adopt their ways of doing things. Russia asserts that planning and control will accomplish the most. We insist that unrestricted private enterprise is unbeatable. Both have to rely on available fuel and iron resources to give point to their contentions.

Instability Grows with Prosperity

The lack or availability of industrial plant and equipment tends to force economic operations and policies into corresponding patterns that are largely independent of the structure of over-all political and economic institutions. The "have-nots" grow slowly but are not troubled by surpluses. The "haves" make rapid progress, saturate their markets, and liquidate the surpluses in recurrent setbacks.

While accumulating capital equipment, an economy is under constant pressure. The Russians, in this position, have succeeded both in expanding heavy industry and in achieving a war potential comparable to ours. But all this has been possible only through severe controls on consumption, which have been necessary to channel production into military use and to prevent inflation. Recently they have had to relax the rigidity of their controls in making concessions to farm and other producer groups whose cooperation is needed in expanding production.

After adequate productive facilities have been accumulated, however, an economy faces the threat of instability. Since the available facilities make possible high-level production without continuing to expand capacity, investment tends to decline; and this reacts on employment, incomes, and expenditures throughout the economy. This is now our position, and it will be the Russian position in the course of time if they succeed in achieving a prosperity comparable to ours. It forces us to work for means of preventing depressions, and if we are to succeed, we shall probably have to establish better control over investment in the future.

Thus, even the over-all extent of control imposed on an economy may have to be modified in an undesired direction by the stages reached in accumulating the capital required for efficient production. Today, the Russians are perhaps in a somewhat more comfortable position than we, since they can continue to push their expansion in civilian lines and can compete more effectively than before in world markets.

For us, on the other hand, a program of helping to expand world economies through capital exports offers a partial solution to our own problems of instability and unemployment. Cooperation with all who are willing to cooperate offers the best basis for progress here as well as abroad. We can well afford a positive foreign policy if we want it. What is required is that we try to live up to the principles set forth in the charters and declarations we hold to be our creed. Over the longer run, this should also be the best way to force similar concessions from those whom we now regard as enemies. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Reapportionment of Congressmen in 1960

Under the present law and by means of a stipulated computational procedure based on the population of each state, a reapportionment of the House of Representatives would be made following the population count of the 1960 census. Unless Congress takes specific action to change the reapportionment within fifteen days from the time that the census figures are passed along by the President, the reapportionment would become effective.

According to the Bureau's population projections by states for April, 1960, ten states including Alaska would gain a total of twenty seats from the losses of fourteen states. California with seven new seats would show the largest gain. Other states with gains of more than one representative would be Florida (three), Michigan (two), and Texas (two). A single representative would be gained by Alaska, Arizona, Indiana, Maryland, Ohio, and Oregon. New York and Pennsylvania would experience the largest losses with three seats each, and next would be Arkansas and Massachusetts with losses of two seats each.

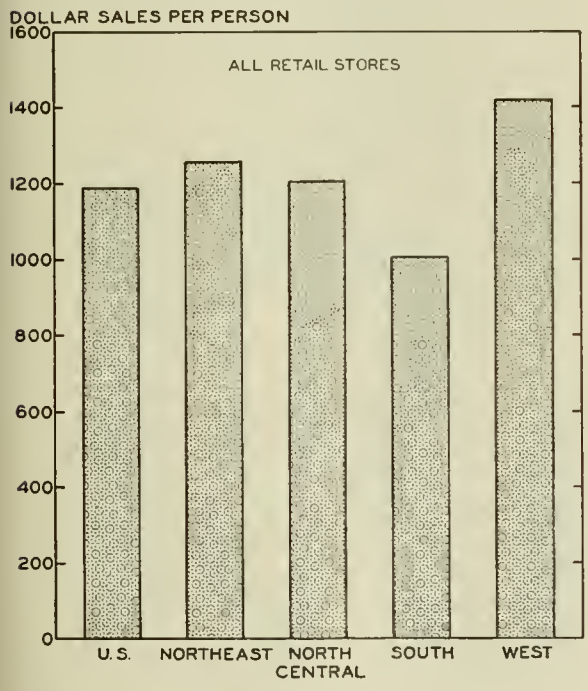
The Western region would acquire nine additional seats, for a total of 66, and the Northeast region would drop to 106 seats, a loss of nine. The Southern region would lose one seat, and the North Central region would remain unchanged. Alaska has not been allocated to any region.

Urban Traffic Problems

Urban traffic problems have proved to be a serious deterrent to industrial expansion as well as to the development of land for other uses. The following publications deal specifically with the problems of highway expansion in metropolitan areas. *Technical Bulletin No. 31* of the Urban Land Institute is a series of papers prepared as background for the symposium, "The New Highways: Challenge to the Metropolitan Region," sponsored in 1957 by the Connecticut General Life Insurance Company in Hartford, Connecticut. It contains discussions on such questions as, Where should highway alignments and interchanges be located in order to preserve neighborhood and community patterns? A copy of the bulletin may be obtained for $3.00 from the Urban Land Institute, 1200 18th Street, N.W., Washington 6, D. C.

To help communities evaluate their transportation problems, the National Committee on Urban Transportation has published a manual called *Better Transportation for Your City*. It outlines organization for effective transportation planning, necessary studies to obtain essential facts, and the procedure for developing and adopting the best transportation plan and supporting financial program. This manual is available at $5.00 a copy from the Public Administration Service, 1313 East 60th Street, Chicago 37, Illinois.

PER CAPITA SALES OF RETAIL STORES BY CENSUS REGIONS, 1957



Source: Bureau of the Census, *Annual Retail Trade Report, 1957*, p. 3.

Annual Sales by Region

Retail sales in 1957 reached a record high of $200 billion. Per capita sales of retail stores for the United States averaged $1,188 in 1957. The average per capita sales within the four regions ranged from $1,005 in the South to $1,422 in the West (see chart).

Variations in regional shares of sales among the nine kinds of businesses listed indicate regional differences in spending patterns. The North Central region accounted for 30 percent of total sales, but it had 26 percent of all apparel sales and 35 percent of the sales made by gasoline service stations. The Northeast region, with 27 percent of total sales, had 35 percent of the sales by the apparel group and 33 percent of those by eating and drinking places, but only 18 percent of gasoline service station sales and 23 percent of sales by the automotive group. Sales in the South averaged 26 percent, but it recorded only 19 percent of all sales of eating and drinking places. In the West sales amounted to 17 percent of total sales with little variance from the region's average except for apparel where it had only 13 percent of all sales.

Labor Force Development in 1957

According to a publication of the Bureau of the Census entitled *Annual Report on the Labor Force, 1957*, the total labor force of the United States averaged 70.7 million in 1957, a gain of 400,000 from 1956, or about half the annual growth expected. Of the 65.0 million employed, 58.8 million were in nonagricultural industries and 6.2 million in agriculture. Unemployment averaged 2.9 million, only slightly higher than in 1956; however, after midyear unemployment rose steadily on a seasonally adjusted basis.

Since 1950 the percentage of women 14 years of age and over who were in the labor force has risen from 33.1 percent to 35.9 percent, whereas the participation rate for men has fallen from 84.4 percent to 82.7 percent. Women made up 32.4 percent of the labor force in 1957; they accounted for 87.4 percent of the unpaid family workers in nonagricultural industries and 60.3 percent in agriculture.

LOCAL ILLINOIS DEVELOPMENTS

The major indexes of Illinois business showed diverse movements from June. Coal production experienced the greatest decline with 30 percent, and farm prices dropped 7 percent below June. Department store sales, seasonally adjusted, advanced 10 percent, and life insurance sales gained 9 percent from June.

Year-ago comparisons indicated losses of 17 percent for coal production and 13 percent for manufacturing employment. Increases from July, 1957, amounted to 30 percent in construction contracts awarded and 27 percent in petroleum production.

Population Growth

According to recent population estimates for 1957 prepared for the Illinois Department of Public Health by the Population Research and Training Center of the University of Chicago, the population of the State of Illinois increased from 8,712,200 persons in April, 1950, to 9,754,000 persons in July, 1957, an advance of approximately 12 percent.

The thirteen metropolitan counties accounted for 929,500, or 89 percent, of this growth. These counties had a 21 percent aggregate population increase, compared with the 12 percent state average. DuPage County had the largest increase with 61 percent, and Lake County was next with 40 percent. There were five other counties with increases of 25 percent or more. Somewhat fewer than half of the State's 102 counties experienced no appreciable change (see chart).

Since 1950 eight cities have more than doubled in population; seven of the cities are located in Cook County and one in Champaign County. Morton Groves, Cook County, experienced the greatest growth with 290 percent and Niles, Cook County, came next with 286 percent.

Automation in Coal Loading

The Missouri Pacific Railroad loading docks near Chester are able to transfer 1,250 tons of coal an hour from railroad cars onto Mississippi River barges. This feat is accomplished by means of a curved belt, more than 600 feet long, which carries the coal from the unloading sheds to the barges. The entire operation can be carried on with fewer than twelve men.

The operation is set up with a railroad siding area capable of accommodating hundreds of hopper-bottom cars. The dock is made up of fourteen steel-clad piers anchored in the bedrock of the river bottom. Since the piers extend upward about 70 feet, they provide suitable anchorage for the barges. Located in the unloading sheds are the automatic shakers which can "clean" a car in less than a minute. The coal drops to an underground pit, where the 600 foot belt picks the coal up and transports it to the waiting barges.

Prospective Crop Yields

The Illinois Crop Reporting Service has announced that Illinois prospects for corn, soybeans, wheat, and oats are up from last year's production, and except for oats they are above the 1947-56 average. Present indications point to a corn crop of 568 million bushels, a yield of 66 bushels per acre. This represents a corn crop of about 7 percent above 1957 and 16 percent above the ten-year average, exceeded only by the production record of 596 million bushels set in 1956. Because of acreage increases, prospective soybean production of 143 million bushels will exceed the previous record of 132 million bushels established in 1956 and will exceed last year's production by 16 million bushels.

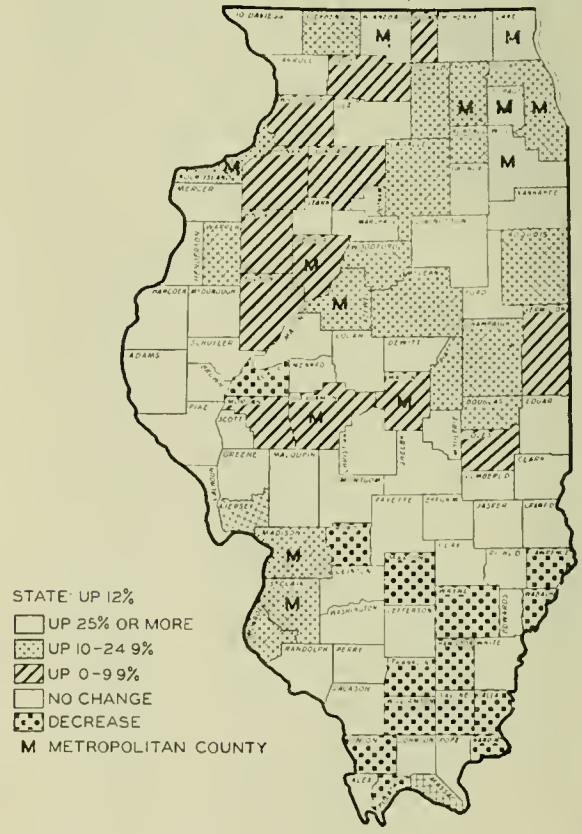
The 1958 wheat crop is now estimated at 54 million bushels, an increase of 46 percent over last year and 26 percent over the ten-year average. This represents a yield of 31 bushels per acre, compared with 21 bushels per acre a year ago and the ten-year average of 26 bushels per acre. Although this year's oat yield is estimated at 5 percent below the ten-year average, per-acre yields of about 52 bushels will exceed all previous years except 1955 when the record of 56 bushels per acre was set.

Public School Costs

The State School Problems Commission recently announced that the public schools in Illinois will cost an additional $285 million during the coming two-year period. It was reported that this amount will be necessary in order to maintain the present level of financial support, which amounts to $200 per pupil per year. This will bring the total cost of public school education in the State to approximately $1,445 million for the coming two-year budget period, an increase of 4 percent over the appropriation for the 1957-59 biennium.

The additional state contribution would amount to approximately $57 million on the basis of the current state aid to public schools, which amounts to about 20 percent of the total. This will raise the state contribution from the present appropriation of $232 million to $289 million for the coming two-year period.

POPULATION CHANGES, 1950 TO 1957



Source: Illinois Department of Health.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$29,970[a]	1,061,304[a]	$516,991[a]		$15,910[a]	$10,945[a]
Percentage change from June, 1958	−80.2	+1.7	−4.1	−10	−4.1	−12.6
Percentage change from July, 1957	−31.0	−5.3	−8.6	+2	−2.9	−8.1
NORTHERN ILLINOIS						
Chicago	$22,358	792,979	$381,834		$14,510	$ 9,433
Percentage change from June, 1958	−84.3	+1.1	−3.3	−10	−4.3	−13.1
Percentage change from July, 1957	−26.2	−6.4	−7.3	+1	−3.3	−9.3
Aurora	$ 926	n.a.	$ 8,067		$ 66	$ 105
Percentage change from June, 1958	+102.2		+1.4	−10	−5.6	−12.4
Percentage change from July, 1957	+133.8		−5.3	+36	+5.4	−0.2
Elgin	$ 161	n.a.	$ 5,835		$ 47	$ 62
Percentage change from June, 1958	+3.9		+3.1	−8	+5.3	−28.1
Percentage change from July, 1957	−42.7		−9.6	−4	+7.7	−1.1
Joliet	$ 617	n.a.	$ 9,827		$ 81	$ 77
Percentage change from June, 1958	+29.1		−0.6	−7	−5.8	−13.2
Percentage change from July, 1957	−17.2		−18.2	−5	+6.6	+5.9
Kankakee	$ 218	n.a.	$ 4,347		n.a.	$ 43
Percentage change from June, 1958	−41.1		−5.9	n.a.		−17.2
Percentage change from July, 1957	−6.4		−13.2			+12.8
Rock Island-Moline	$1,400	23,746	$10,176		$ 113[b]	$ 128
Percentage change from June, 1958	+72.4	+2.4	−6.2	n.a.	+2.6	−4.7
Percentage change from July, 1957	−36.0	−2.7	−4.7		+7.1	+14.6
Rockford	$ 962	40,474[c]	$15,358		$ 178	$ 149
Percentage change from June, 1958	−16.5	+1.3	−9.8	−5	+2.1	−20.5
Percentage change from July, 1957	−25.8	−3.5	−21.7	−8	+2.3	−11.8
CENTRAL ILLINOIS						
Bloomington	$ 274	8,176	$ 4,952		$ 75	$ 74
Percentage change from June, 1958	−35.1	+6.7	−10.5	n.a.	+7.0	−2.8
Percentage change from July, 1957	+68.1	+3.3	−7.9		+11.6	+9.5
Champaign-Urbana	$ 365	12,684	$ 7,377		$ 74	$ 82
Percentage change from June, 1958	−26.6	+8.1	−17.7	n.a.	−2.5	−0.3
Percentage change from July, 1957	−22.2	+14.0	−5.8		+6.7	+12.9
Danville	$ 162	12,056	$ 5,554		$ 51	$ 46
Percentage change from June, 1958	−43.4	−2.0	−12.3	0	+3.2	−5.8
Percentage change from July, 1957	−87.5	+3.9	−10.9	−6	+1.5	−16.6
Decatur	$ 450	32,222	$10,730		$ 122	$ 88
Percentage change from June, 1958	−69.0	+1.6	−8.3	−4[c]	+2.4	−22.3
Percentage change from July, 1957	−65.5	+3.0	−6.7	+7[c]	+2.7	−6.3
Galesburg	$ 349	8,416	$ 4,217		n.a.	$ 32
Percentage change from June, 1958	+12.2	+1.6	−7.7	n.a.		−12.8
Percentage change from July, 1957	−14.9	−1.4	−7.9			+2.8
Peoria	$ 634	43,147[c]	$15,170		$ 235	$ 208
Percentage change from June, 1958	+53.5	−7.5	−2.6	−12[c]	−4.8	−13.6
Percentage change from July, 1957	−79.7	−17.6	−17.3	−5[c]	−3.9	+2.1
Quincy	$ 91	9,124[c]	$ 4,549		$ 44	$ 63
Percentage change from June, 1958	−65.1	−7.0	−4.3	−8	−1.1	+2.0
Percentage change from July, 1957	−56.2	−6.1	−11.8	−1	−1.3	+13.6
Springfield	$ 618	38,228[c]	$12,098		$ 122	$ 212
Percentage change from June, 1958	−48.2	+14.2	−11.3	−9[c]	−5.9	−3.3
Percentage change from July, 1957	+37.9	−2.9	−9.7	−3[c]	−1.4	−9.3
SOUTHERN ILLINOIS						
East St. Louis	$ 113	15,472	$ 8,061		$ 152	$ 81
Percentage change from June, 1958	−81.4	+30.7	−3.3	n.a.	−3.1	+62.8
Percentage change from July, 1957	−59.8	+19.8	−13.7		−2.2	+4.6
Alton	$ 75	14,737	$ 4,421		$ 41	$ 29
Percentage change from June, 1958	0.0	+9.6	−4.8	n.a.	−8.3	+1.4
Percentage change from July, 1957	−27.2	+4.0	−10.2		+0.1	+1.1
Belleville	$ 197	9,844	$ 4,418		n.a.	$ 33
Percentage change from June, 1958	0.0	+8.8	+2.0	n.a.		−10.2
Percentage change from July, 1957	−6.2	+15.8	−7.9			−14.7

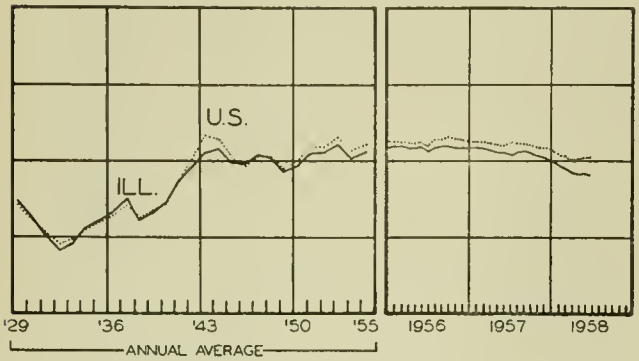
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for June, 1958. Comparisons relate to May, 1958, and June, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending July 25, 1958, and July 26, 1957.

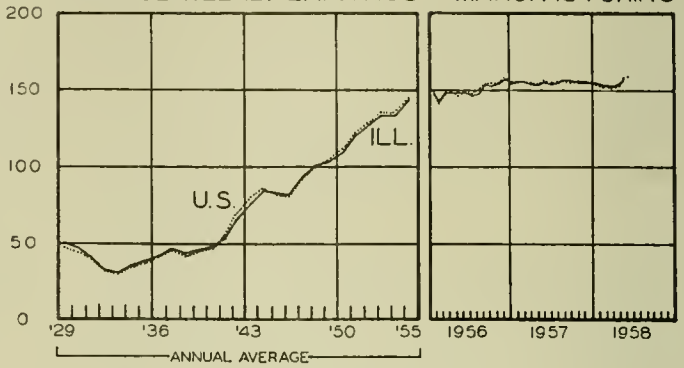
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

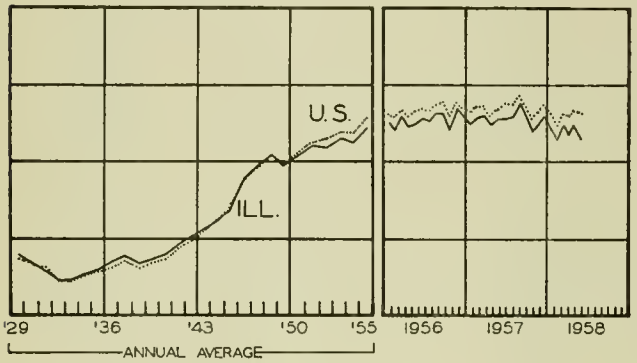
EMPLOYMENT MANUFACTURING



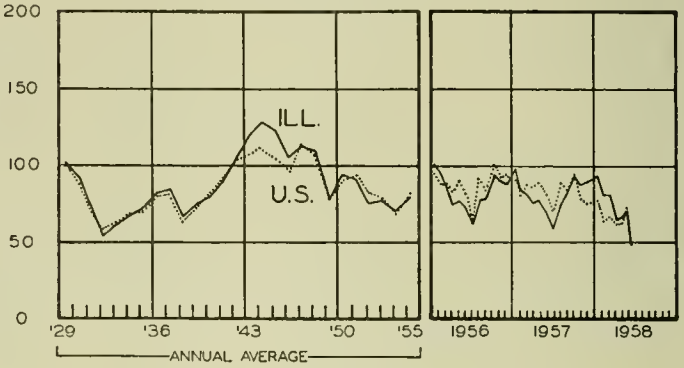
AVERAGE WEEKLY EARNINGS - MANUFACTURING



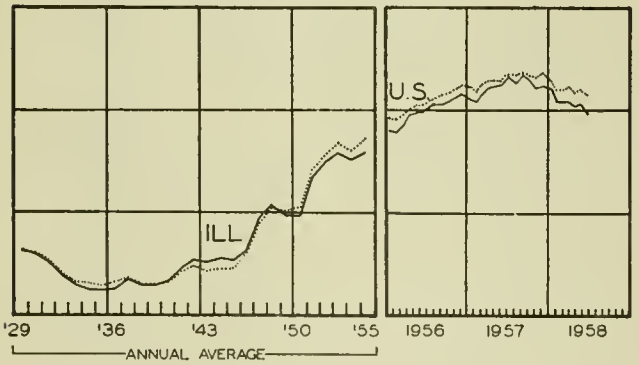
DEPARTMENT STORE SALES



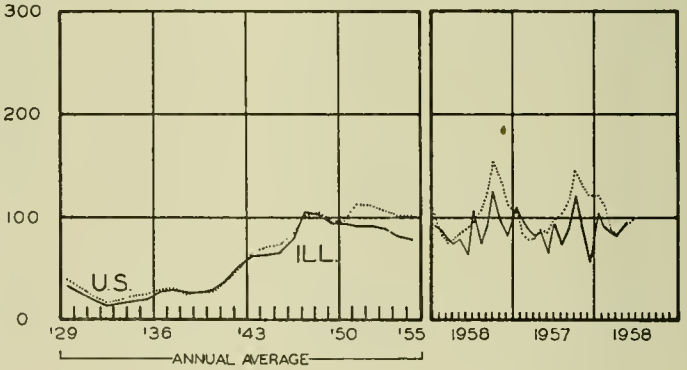
COAL PRODUCTION



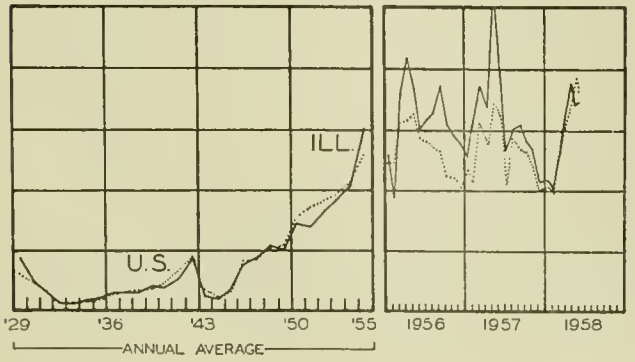
BUSINESS LOANS



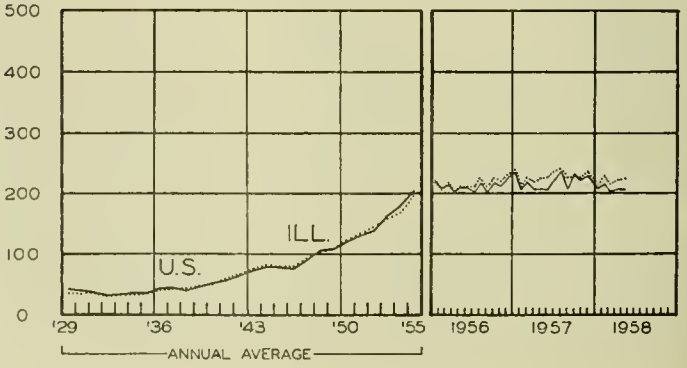
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

Business conditions continued to improve in September. Production expanded further, with steel leading the procession. Prices of aluminum, copper, lead, and zinc, which had exhibited weakness in earlier months, experienced some advances, partly as a result of greater demand. Construction outlays and contracts continued high, and freight carloadings showed some improvement. The stock market broke through the old ceiling to new all-time highs.

A sour note still could be heard from the auto industry. Sales in September were unofficially estimated at 256,000, making it the leanest sales month since August, 1952. Although labor disputes held down production, dealers still had close to 40 days' stocks on hand.

New Construction Stays High

Construction outlays in September matched the record August pace of $4.8 billion and raised the dollar volume put in place during the first nine months of 1958 to $36.4 billion, a slight increase over the $35.9 billion for the corresponding period of 1957.

Continued high spending for highways and public housing kept outlays for public construction at the August level of $1.6 billion. In the first three quarters of the current year, public agencies expended about $11.3 billion, some $700 million more than in the same period last year.

Private construction in September amounted to $3.2 billion, about the same as in August. The total for the first nine months of this year was down $200 million from the $25.2 billion spent in the corresponding months of 1957.

Inventories Decline Again

The book value of business inventories declined $400 million in August to $85.4 billion after seasonal adjustment. Three-fourths of the drop occurred in manufacturers' stocks and the remainder in retailers' inventories. In both cases durable and nondurable goods shared about equally in the liquidation. The total was down more than $6 billion from August, 1957, with almost $5 billion of the reduction taking place in manufacturing.

Sales by manufacturers and distributors rose during August to an adjusted $54.4 billion, $400 million over the previous month. Half of the increase was attributed to retailers, with the other half divided between manufacturers and wholesalers. For the latter two groups, sales of durable goods went up most, but retailers made their principal gains in sales of nondurables. Total manufacturing and trade sales were still off nearly $4 billion from August a year ago.

New orders received by manufacturers fell slightly in August to $26.3 billion after allowance for seasonal factors. A $200 million drop in the durable goods industries was partly offset by a $100 million gain in the nondurable goods industries.

Installment Debt Turns Up

After six straight months of reductions, consumers added $30 million on a seasonally adjusted basis to their installment debts in August, bringing the total outstanding to $33.2 billion. The advance reflected extensions of new credit amounting to an adjusted $3,431 million and repayments of outstanding credit amounting to an adjusted $3,401 million. New credit was up $89 million and repayments rose $27 million from July.

Consumer goods paper, other than automobile paper, rose $67 million, personal loans $59 million, and repair and modernization loans $16 million. These were partly offset by a further decline of $112 million in auto loans.

Noninstallment debt moved close to $10 billion as a result of an adjusted increase of $116 million during August. Total consumer credit at the end of the month amounted to $43.2 billion, $116 million more than the year-earlier figure.

Agricultural Prices Up

Prices received by farmers turned up during the month ending September 15 after a three-month decline. Higher prices for oranges and grapefruit, dairy products, eggs, cotton, and some grains more than offset lower prices for hogs and poultry. The index climbed to 258 percent of the 1910-14 level, the highest for the month since 1952 and 7 percentage points above the preceding month. A year ago the index stood at 245. Prices paid by farmers rose only 1 percentage point during the latest month to 305 percent of the 1910-14 average, bringing the parity ratio up to 85 compared with 83 for both the month and year earlier.

Farm crops are expected to run 9 percent above last year's record-equaling output. With prices received higher, it is estimated that this year's net farm income may run $2 billion or more above the $10.8 billion reported in 1957.

NEW LIGHT ON THE STRUCTURE OF INDUSTRY · · By Joseph D. Phillips · · Page 6

ILLINOIS BUSINESS REVIEW

Published eleven times a year by the

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Champaign, Illinois, under the Act of August 24, 1912.

Bogey of Inflation

The way fear of inflation may undermine one's sense of values is revealed in the story of the youth who tried to corner the subway-token market. He drew out his bank account of $5,000 and, going from station to station, bought the maximum amounts available. His idea was that inflation would increase subway fares, so that he could resell the tokens later at a higher price.

This incident represents, of course, no more than a trifle in the total flow of economic affairs. However, misconceptions of the threat of inflation have more important effects in other areas. This youth's idea is not too far removed from that of the investor who buys railroad stocks because inflation "will erode" the tremendous debt of the roads to the benefit of the stockholders.

The Case of the Professional Investor

The attitudes of the institutional investors are distinctly conflicting: They are leaders of the fight against inflation but they also try to take advantage of what they think may happen to prices. Thus, they help to get what they abhor by bidding prices up. The tendency is well illustrated by the recent decision to put one-tenth of the $2.6 billion AT & T pension fund for telephone employees into common stocks. It seems that even the most conservative people can be infected at a time when the stock market is reaching historic new highs.

No objective standards of investment value justify the prices currently being paid for popular stocks. The overvaluation at current levels of earnings and dividends is far greater than it was last year; and although business has been improving, there is no good basis for expecting corporate profits to reach new highs in the near future. One investment counsellor justifies his purchase recommendations in the following terms: "Don't fret about price-earnings ratios. . . . The professional investors are watching them all the time . . . and you can be sure that they are always pretty much in line with the going market." In other words, disregard the facts and you will be in good company.

Partly, this attitude is a consequence of the flow of new funds into the market. The investment trust managers may perhaps be forgiven if they use the funds turned over to them to buy stocks in accordance with their shareholders' instructions.

The position is different, however, for the trustees who are shifting existing trust funds from bonds to stocks. They hold themselves to be the protectors of "the widows and orphans." Actually, they are setting the beneficiaries up for the knockout by the old one-two punch. The first blow has been delivered with the decline in bond prices and in the purchasing power of the dollar. The second, now being prepared with the shift into stocks priced at dizzying heights, will come with the return of sanity to the stock market.

Exaggerating the Impact of the Deficit

Among the reasons currently cited for expecting further inflation is the shift of the federal budget into a substantial deficit. Although the idea that deficits automatically spell inflation is largely fallacious, it has gained very wide acceptance. Few seem to recognize that it is wholly valid only on two assumptions — *ceteris paribus* and full employment. But other things are in fact hardly ever equal, and we are quite a way from full employment today. Limited study of the record is sufficient to reveal that deficits in this country have been associated with such disasters as war and depression rather than with prosperity and inflation.

In evaluating the effects of the federal budget on the economy, there is no alternative to considering the gross flows of expenditures and receipts. The portion of the deficit that derives from falling tax receipts with fixed rates can be written off as having no immediate inflationary impact. It merely tends to moderate deflationary forces by sustaining incomes and consumption. The latest budget estimates show no decrease in personal income taxes for fiscal 1959 but rather a small increase. This is more than offset by a decrease in corporate income taxes, but it is hard to show that this decrease will contribute anything at all to higher activity or prices.

Most of the increase in the deficit is expected to result from rising expenditures. There is much talk of how tremendous they will be, but the $7 billion increase projected for fiscal 1959 represents very little additional direct claim on resources. Much of the increase takes the form of mortgage purchases, farm surplus accumulation, and transfer payments. The Commerce Department estimates the increase for goods and services at $3.5 billion. Of this, the $1.5 billion for farm price supports represents commodities already in existence, and the remainder is largely accounted for by higher prices and increased pay for employees' services. The direct claim on production, therefore, is practically insignificant, a mere fraction of the potential growth in gross product during the year.

There will, of course, be indirect effects from the other kinds of expenditures. Regarding these, two points should be noted: First, their impact has to be assessed in the sectors affected—homebuilding, farm purchases, and consumer spending — and not in direct federal expenditures or in the deficit. Second, the pay increases are already in effect and others among these programs are already at or near the peak, so that little further expansion from these sources will be forthcoming.

Notwithstanding exaggerated notions to the contrary, the budget for fiscal 1959 is not highly inflationary. The Administration is so much more concerned about the deficit than about unemployment that it seems to be afraid some additional employment might actually develop from the programs adopted. Last month Budget Director Stans, at the President's request, called upon all agencies to reduce employment 2 percent from the level previously approved. There is a striking parallel to this in President

(Continued on page 8)

CANNING: OUR AGRICULTURAL STABILIZER

Canning in the United States has become a large-scale industry, primarily because of technological and scientific developments. The industry was among the first to utilize the principle of automation and today ranks among the most mechanized of all American industries.

Commercial canning originated in France in 1810, just a year after the discovery that foods sealed in airtight containers and immersed in boiling water could be preserved for considerable periods of time. By 1819 the new preservation technique had reached America. Here, food was packed exclusively in glass containers until 1839, when a switch was made to crudely constructed metal cannisters because of irregular shipments of jars from England.

The development of automatic machinery for canning accelerated after the Civil War. By 1930 the industry was almost entirely mechanized, the more important developments being the invention of the pressure cooker, automatic labelers, and temperature regulators. Important improvements since the beginning of World War II include electrolytic tinning and electric-eye sorting. Today, about the only manual labor performed is the trimming of fresh foods for processing. The canning industry encompasses a wide variety of goods, including many nonedible products. However, attention is concentrated here on fruits and vegetables.

Portrait of Postwar Canneries

The canning industry in America has always been closely associated with agriculture. Most factories are located near growing areas to diminish the time lag between picking and processing during the short harvesting season. Mechanization has lessened the possibility of spoilage. It has also reduced the number of canneries (excluding milk, meat, and fish) from 2,500 in 1947 to 1,760 in 1954, with the greatest decline occurring in factories employing between five and fifty persons.

Despite reductions in plant numbers, the industry produced a record 583 million cases (a case may vary from 4 to 96 containers) in 1956, a 33 percent jump over 1947. Value added by manufacture in 1954 was about $470,000 per plant.

Employment is characterized by sharp seasonal fluctuations, climbing to 225,000 in September, the peak of the harvesting time, and declining to 75,000 in February. The average production worker earns $2,600 annually.

Because canning makes fruits and vegetables available outside the growing season, the canned goods marketing system is similar to that of other manufactured goods. Whereas most of the fresh produce is sent directly to retailers, nearly two-thirds of the canned goods is sold through food brokers to wholesalers and the remaining one-third to chains, smaller retailers, and institutions.

More than a billion dollars is paid annually to farmers for fresh crops for canning. Most canneries customarily contract for crops before they are planted. Although this procedure involves price risks, it gives canners greater control of the product.

Factors in Industry's Growth

Despite nineteenth and early twentieth century prejudices against canned foods, there are indications that this feeling no longer prevails. The United States Department of Agriculture estimates that the average annual per capita consumption of canned fruits, juices, vegetables, and soups in 1955 was 89 pounds compared with 40 pounds in 1926. The great increase in the market for canned foods has been attributed to a number of factors, including (1) improvements in quality and diversity of products, (2) extensive advertising, (3) population gains, and (4) population shifts from rural to urban areas.

The growth of canned foods is also attributed to the fact that they were the first of the "pre-packaged" or convenience foods. These have freed the housewife from much kitchen drudgery and have provided a year-round variety of foods in nutritious forms which would not have been available otherwise.

Illinois — Vegetable Canner

Illinois ranks fourth in the canning industry, after California, New York, and New Jersey. The State's position in this ranking is dependent almost entirely upon vegetable canning. Although Illinois canneries increased value added by manufacture from $49 million in 1947 to $73 million in 1954, is slipped from third place.

Although most states have experienced a decline in number of canning establishments in the postwar era, Illinois is one of the few states in which the reverse occurred. Its plants increased from 84 to 91 between 1947 and 1954, but employment decreased slightly from the 8,300 workers in 1947. Illinois canneries are noticeably larger than those in the surrounding states. The average value of products per plant in 1954 was about twice that of Wisconsin and Michigan and four times that of Indiana and Iowa.

The State's volume canning crop is sweet-corn, followed by green peas. More than 7 million cases of corn and 2.5 million cases of green peas were packed in 1956. Other important but secondary crops are pumpkin, squash, asparagus, tomatoes, lima beans, and green beans. More than 120,000 acres were used to grow foods for canning in Illinois last year, twice the acreage of 1912.

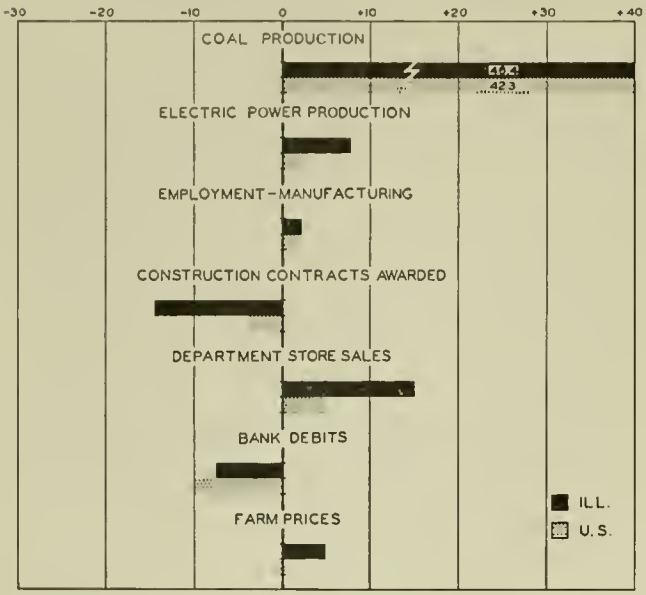
Because proximity to supply influences the location of canning factories, the industry has tended to remain concentrated in the northern part of the State where soils, temperatures, and rainfall are more favorable to vegetables for processing. Two major canning belts can be found in Illinois, one near the northern tier of counties where half of the State's canned corn and 90 percent of the peas are produced, and the other in east-central Illinois centering on Hoopeston. The latter packs about 10 percent of the nation's sweet-corn.

Because of the increasing acceptance of canned goods, the industry can look forward to a growing market. Mechanization will no doubt be developed in the direction of complete automation and quite likely will include atomic radiation as a future means of food preservation.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1958, to August, 1958



ILLINOIS BUSINESS INDEXES

Item	August 1958 (1947-49 =100)	Percentage change from July 1958	Percentage change from August 1957
Electric power[1]	234.5	+ 7.8	+ 0.1
Coal production[2]	71.9	+46.4	− 2.8
Employment—manufacturing[3]	93.1	+ 2.2	−12.2
Weekly earnings—manufacturing[3]	156.8[a]	+ 0.5	+ 1.9
Dept. store sales in Chicago[4]	127.0[b]	+ 2.4	− 0.8
Consumer prices in Chicago[5]	126.9	− 0.5	+ 2.3
Construction contracts awarded[6]	296.7	−14.5	− 1.8
Bank debits[7]	168.1	− 7.6	− 5.4
Farm prices[8]	88.0	+ 4.8	+ 2.3
Life insurance sales (ordinary)[9]	270.7	− 9.1	− 5.0
Petroleum production[10]	115.8	−10.3	+ 9.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] July data; comparisons relate to June, 1958, and July, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	August 1958	Percentage change from July 1958	Percentage change from August 1957
	Annual rate in billion $		
Personal income[1]	355.6[a]	+ 0.4	+ 1.0
Manufacturing[1]			
Sales	316.8[a]	+ 0.4	− 7.7
Inventories	49.5[a, b]	− 0.6	− 8.5
New construction activity[1]			
Private residential	20.6	+ 4.7	+ 6.6
Private nonresidential	18.0	+ 0.7	− 5.6
Total public	19.1	+ 4.9	+ 8.0
Foreign trade[1]			
Merchandise exports	17.0[c]	+ 0.8	−16.1
Merchandise imports	12.6[c]	+ 1.3	− 8.4
Excess of exports	4.4[c]	− 0.5	−32.4
Consumer credit outstanding[2]			
Total credit	43.2[b]	+ 0.4	+ 0.8
Installment credit	33.2[b]	+ 0.3	+ 0.6
Business loans[2]	29.9[b]	+ 1.2	− 6.6
Cash farm income[3]	32.9[c]	+13.2	+ 2.5
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	137[a]	+ 2.2	− 5.5
Durable manufactures	139[a]	+ 1.5	− 5.4
Nondurable manufactures	134[a]	+ 1.5	+ 1.5
Minerals	119[a]	+ 3.4	− 7.8
Manufacturing employment[4]			
Production workers	94	+ 0.3	−10.4
Factory worker earnings[4]			
Average hours worked	99	+ 0.5	− 1.5
Average hourly earnings	159	− 0.5	+ 2.4
Average weekly earnings	158	+ 0.0	+ 0.9
Construction contracts awarded[5]	350	− 3.9	+23.0
Department store sales[2]	147[a]	+ 5.0	+ 2.1
Consumer price index[4]	124	− 0.2	+ 2.2
Wholesale prices[4]			
All commodities	119	− 0.1	+ 0.6
Farm products	93	− 1.9	+ 0.2
Foods	111	− 1.2	+ 4.2
Other	126	+ 0.4	+ 0.1
Farm prices[3]			
Received by farmers	93	− 1.1	+ 2.2
Paid by farmers	122	0.0	+ 3.4
Parity ratio	83[d]	0.0	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for July, 1958; comparisons relate to June, 1958, and July, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Sept. 27	Sept. 20	Sept. 13	Sept. 6	Aug. 30	Sept. 28
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,483	1,404	1,391	1,404	1,382	1,708
Electric power by utilities mil. of kw-hr.	12,342	12,240	12,248	12,025	12,272	11,697
Motor vehicles (Wards) number in thous.	57	51	31	16	26	61
Petroleum (daily avg.) thous. bbl.	7,100	7,087	7,009	7,060	6,863	6,821
Steel 1947-49 =100	105	103	103	97	100	122
Freight carloadings thous. of cars	673	667	666	563	645	739
Department store sales 1947-49 =100	136	136	145	123	149	139
Commodity prices, wholesale:						
All commodities 1947-49 =100	118.9	119.0	119.0	118.8	118.7	118.0[a]
Other than farm products and foods 1947-49 =100	126.0	126.0	126.1	126.1	125.9	126.0[a]
22 commodities 1947-49 =100	85.8	86.1	86.2	86.2	86.2	86.2
Finance:						
Business loans mil. of dol.	30,244	30,467	30,084	29,885	29,901	32,408
Failures, industrial and commercial number	268	262	256	191	246	278

Source: *Survey of Current Business, Weekly Supplements.*
[a] Monthly index for September, 1957.

RECENT ECONOMIC CHANGES

Housing Starts

Privately owned housing starts rose slightly in August to 108,800, about 1,500 units above the July total, according to preliminary estimates by the Bureau of Labor Statistics. The volume of housing starts in August also represented a gain of about 12 percent over the same month last year and was the largest private total for any month since May, 1956. The entire increase over July was in housing begun under FHA and VA mortgage insurance programs.

Seasonally adjusted, private nonfarm housing starts were at an annual rate of 1,170,000 in August, the highest rate in two and a half years (see chart) and 28 percent above the nine-year low of 918,000 recorded in February, 1958. For the first eight months of this year, private housing starts have totaled about 717,300 units compared with 676,000 last year and 772,100 in 1956.

Total nonfarm housing starts, both public and private, rose to 119,000 units in July, 8,000 units above the previous month. Public housing starts, which fell from 10,500 units in June to 3,700 in July, bounced back to 10,200 in August and accounted for a substantial portion of the July-to-August increase in the total volume.

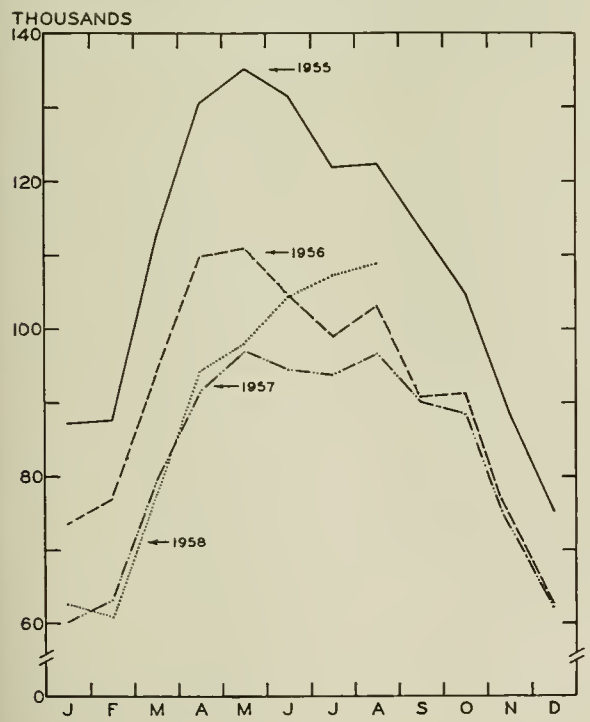
Profits

Sales and earnings of United States manufacturing corporations advanced during the second quarter of this year. According to the latest quarterly financial report by the Securities and Exchange Commission, it was the first quarterly increase in both sales and profits since the end of 1956.

Second quarter 1958 sales were estimated at $74.4 billion, a gain of 3 percent over the first three months of the year; profits after taxes were estimated at $2.8 billion, a 15 percent increase. In the second quarter of 1957, sales and earnings after taxes amounted to $80.9 billion and $4.1 billion, respectively. Profits after taxes averaged 3.8 percent of sales in the second quarter, compared with 3.4 percent in the preceding period and 5.0 percent in the second quarter of last year.

The greatest improvement in profits and profit rates occurred in firms with assets under $10 million. The largest size group, firms with assets of $1 billion or more, actually showed lower profits in the second quarter, reflecting over-all profit declines in the motor vehicle and petroleum industries.

NONFARM HOUSING STARTS



Source: Bureau of Labor Statistics.

Farm Land Values

The Agriculture Department estimated that the value of the nation's farm land reached a record $118.7 billion as of July 1, 1958. A year ago rural real estate was valued at $112.4 billion.

The agency reported that good crop prospects were helping to push the value of farm real estate to new highs and predicted that the upward movement would continue in the year ahead, but at a slower pace than last year.

The department also reported that 46 states recorded new highs in farm land values on July 1. Florida farm land showed the greatest gain, 15 percent, while the Great Plains states had increases ranging from 6 to 10 percent over the past year. Corn-belt land rose only 4 percent.

Nationally, the index of farm real estate values moved up to a record 159.2 percent of the 1947-49 average. This advance represented the thirteenth straight four-month period in which the index has risen. Last March the index stood at 155.9 and in July, 1957, it was 150.6 percent of the 1947-49 average.

Working Capital

Net working capital of United States corporations increased by $1.7 billion in the second quarter of this year, and on June 30 stood at $116.6 billion, according to the latest estimates made by the Securities and Exchange Commission. At the end of the second quarter of 1957 net working capital totaled $112.1 billion. A $3.5 billion drop in current liabilities outweighed a decline of $1.8 billion in current assets to account for the second quarter rise. The decline in current assets to $231.0 billion on June 30 was caused mainly by a drop in corporate inventories.

By industry groups, the gain in net working capital was spread about evenly among manufacturing, trade, and finance groups with each realizing about a half-billion dollar increase.

Employment

Employment and unemployment both dropped in September. Employment fell by 738,000 as students quit summer jobs to return to school. At the same time, an increase among adult men in nonfarm activities brought unemployment down about 588,000 to the lowest level of the year.

Census data, in thousands of workers, are as follows:

	Sept. 1958	*Aug. 1958*	*Sept. 1957*
Civilian labor force	68,740	70,067	68,225
Employment	64,629	65,367	65,674
Agricultural	6,191	6,621	6,518
Nonagricultural	58,438	58,746	59,156
Unemployment	4,111	4,699	2,552
Seasonally adjusted rate	7.2	7.6	4.5

NEW LIGHT ON THE STRUCTURE OF INDUSTRY

JOSEPH D. PHILLIPS, Research Associate Professor

How many business establishments are owned by companies that have only one establishment? How many belong to companies with establishments in more than one industry? What industries have the greatest proportion of companies with establishments in other industries? These and other questions can be answered with data made available in a recent bulletin of the Bureau of the Census entitled *Company Statistics,* summarizing the 1954 Censuses of Business, Manufactures, and Mineral Industries. Prior to its publication most of the data from these and earlier censuses were reported only on an establishment basis.

In this report statistics are presented both in terms of establishments and in terms of the companies to which they belong. Each establishment and each company is classified, in accordance with its primary activity, in one of 122 industries. These industries cover all business within the scope of the censuses listed above — the mineral industries, manufacturing, public warehouses, wholesale trade, retail trade, and selected service trades. Such industries as agriculture, construction, finance, transportation, and public utilities are omitted.

Companies are classified not only by their primary industrial activity but also as (1) "single-unit" or "multiunit" companies, depending on whether they own or control one or more than one establishment, and as (2) "single-industry" or "multi-industry," depending on whether their establishments are classified in one or more than one industry. By definition a "single-unit" company is a "single-industry" company, but a "multiunit" company may be either a "single-industry" or "multi-industry."

The data in the report establish the high degree of concentration in the basic manufacturing industries and the correspondingly large average size of multiunit companies in these industries. The economic power of these companies has provided them with opportunities to branch out which are not available to companies in the nonmanufacturing industries; their diversification stands in marked contrast to the specialization of companies in the service trades. This diversification by manufacturing companies extends into other industry divisions but is concentrated in manufacturing and the mineral industries. In the main, the large manufacturing companies seem willing to leave the wholesaling, retailing, and service trades to others, at least formally. However, there can be little doubt that an important center of control lies in the large manufacturing companies.

Concentration of Employment

More than half of the nearly 2.8 million companies covered were primarily engaged in retail trade and less than a tenth were predominantly in manufacturing, but nearly three-fifths of the 29.5 million workers were employed by companies primarily engaged in manufacturing and only a fourth by retailing companies (see Table 1).

Multiunit companies made up about 2 percent of all companies, the rest being single-unit enterprises. However, 52 percent of the workers employed worked for multiunit companies. In manufacturing, 3 percent of all companies were multiunit firms, but these had 64 percent of the workers employed by manufacturing companies. In retailing and selected service trades, multiunit companies employed 39 and 23 percent respectively of all persons working for companies in these industry divisions. Thus it was the high concentration of employment in multiunit manufacturing companies that accounted for the predominance of employment by multiunit companies in the total.

Single-unit companies employed only 5 workers on the average, whereas multiunit companies employed 225. Among manufacturing companies single-unit firms averaged 24 employees, whereas multiunit firms employed an average of 1,377 workers. At the other extreme, single-unit companies among the selected service trades had fewer than 3 employees on the average, whereas multiunit companies had 54 employees.

A classification of multiunit companies by employment size (Table 2) reveals that 85 percent of these companies had less than 100 employees and employed only 7 percent of those working for such companies. At the other extreme, only 0.6 percent of the multiunit companies had 5,000 or more employees, but these employed 54 percent of those working for multiunit companies. At a still greater extreme not shown in the table, 0.016 percent of the companies employed 28 percent of all workers.

Again it was the concentration in manufacturing that largely determined the pattern for the total. Only 27 percent of the multiunit companies in manufacturing had fewer than 100 employ-

Table 1. SINGLE-UNIT AND MULTIUNIT COMPANIES BY INDUSTRY DIVISION AND BY SINGLE-INDUSTRY AND MULTI-INDUSTRY CLASSIFICATION: 1954

(Employment figures in thousands. Detail may not add to totals because of rounding.)

Type of company	Total	Mineral industries	Manufacturing	Wholesale trade	Retail trade	Selected service trades	Public warehouses
Number of companies, total	2,783,977	30,274	263,103	185,067	1,542,982	755,859	6,692
Single-unit	2,715,844	28,256	255,035	176,485	1,503,954	745,668	6,446
Multiunit	68,133	2,018	8,068	8,582	39,028	10,191	246
Single-industry	61,291	1,640	4,656	7,555	37,519	9,686	235
Multi-industry	6,842	378	3,412	1,027	1,509	505	11
No. of establishments, total	3,074,427	37,181	356,741	211,092	1,677,000	784,972	7,441
Single-unit	2,715,844	28,256	255,035	176,485	1,503,954	745,668	6,446
Multiunit	358,583	8,925	101,706	34,607	173,046	39,304	995
Single-industry	211,539	5,658	19,330	24,142	129,178	32,303	928
Multi-industry	147,044	3,267	82,376	10,465	43,868	7,001	67
Company employment, total	29,497	597	17,251	1,989	7,217	2,352	91
Single-unit	14,149	255	6,140	1,457	4,425	1,803	68
Multiunit	15,348	341	11,111	532	2,791	550	22
Single-industry	4,030	132	1,963	307	1,287	319	21
Multi-industry	11,318	209	9,147	225	1,504	231	2

ces and these employed about 1 percent of the personnel working for multiunit manufacturing firms. Nearly 5 percent of the multiunit manufacturing firms had 5,000 or more employees and provided work for 62 percent of those engaged by all such manufacturers.

Diversification of companies is manifest in their ownership of establishments in more than one industry. Multi-industry companies made up only 0.25 percent of all the companies covered, but they accounted for 38 percent of total employment. In manufacturing and in the mineral industries multi-industry companies amounted to slightly more than 1 percent of all companies in their industry divisions. However, employment by multi-industry companies accounted for 53 percent of all employment by manufacturing companies and for 35 percent by mining firms. In retail trade and in the selected service trades only 0.1 percent of the companies were classified as multi-industry; these employed 21 percent of the workers in retail trade and 10 percent in the selected service trades. Clearly manufacturing companies show the greatest tendency to diversification.

Table 2. MULTIUNIT COMPANIES BY INDUSTRY DIVISION AND EMPLOYMENT-SIZE CLASS: 1954

(Percentage distributions)

Industry division	Multiunit companies by employment-size class					
	Total	Less than 100 employees	100 to 499 employees	500 to 999 employees	1,000 to 4,999 employees	5,000 employees and over
Number of companies, total	100.0	84.8	10.1	2.2	2.2	0.6
Mineral industries	100.0	76.3	17.4	3.2	2.7	0.3
Manufacturing	100.0	27.2	40.7	13.3	14.3	4.5
Wholesale trade	100.0	87.8	10.9	1.0	0.3	(*)
Retail trade	100.0	94.2	4.5	0.6	0.6	0.1
Selected service trades	100.0	93.6	4.9	0.7	0.7	0.1
Public warehouses	100.0	76.0	22.4	1.2	0.4	....
Employment, total	100.0	7.2	10.9	7.0	21.0	53.9
Mineral industries	100.0	12.9	25.5	13.5	35.8	12.3
Manufacturing	100.0	1.2	8.1	7.0	22.0	61.6
Wholesale trade	100.0	39.1	35.3	10.9	8.3	6.4
Retail trade	100.0	20.2	13.1	5.4	16.4	44.8
Selected service trades	100.0	25.6	20.4	8.9	27.5	17.6
Public warehouses	100.0	27.3	50.0	9.1	13.6	....

* Less than 0.1 percent.

Owner Specialization High in Services

Another measure that indirectly throws light on both concentration and diversification is the percentage of ownership specialization. The number of establishments owned by companies primarily engaged in a specific industry was expressed as a percentage of the number of all establishments in the industry. Similar percentages were obtained for employment, payrolls, value added by manufacture (sales for trade and services), and capital expenditures for mining and manufacturing.

For most industries the percentage of establishments in the industry that were owned by companies primarily engaged in the industry exceeded 90 percent and in many ran around 99 percent. As a group, the service trades had the highest percentages, amounting to about 99 percent. Ownership specialization percentages were equally high for this group when expressed in terms of employment, payrolls, or receipts, except for two industries. Industries in the retailing and wholesaling fields also ranked high in ownership specialization.

In manufacturing and in mineral industries, a higher percentage of ownership specialization when measured by number of establishments than when gauged by employment, payrolls, value added by manufacture, or capital expenditures was evident for most industries. This reflects the fact that the establishments owned by companies primarily engaged in the industry averaged smaller than those owned by other companies, all of the latter being multi-industry companies. Establishments of the latter tended to be large, whereas the former included many smaller single-unit companies.

Not all manufacturing industries fit the pattern described above. For example, only 81 percent of the blast furnace and steel mill establishments were owned by companies primarily engaged in that industry, whereas about 92 percent of the employment, payrolls, and the value added by manufacture arose in establishments owned by such companies. Here the average industry establishment had 1,883 employees, whereas the average one owned by other companies had only 693.

Industry Specialization

The opposite of diversification is company specialization in a particular industry. Percentages of industry specialization provided in the report throw light on this. These were obtained for each industry by expressing each of the measures (i.e., number of establishments, employment, and payroll) for the establishments of companies primarily engaged in the industry as a percentage of the corresponding measure for all establishments of the same companies, both in that industry and in other industries.

In all but three of the industries outside the manufacturing division, the companies primarily engaged in a specific industry had more than 95 percent of their establishments in the same industry. In many industries this proportion amounted to more than 99 percent. Many of the manufacturing industries also had very high percentages of industry specialization, but more than a third fell below 90 percent. For example, only 32 percent of the establishments of companies primarily engaged in footwear manufacturing were in that industry, most of the remainder being shoe stores.

The high percentages of industry specialization, when this is measured in terms of numbers of establishments, reflects mainly the predominance of single-unit companies in this measure. When industry specialization is measured in terms of employment or payroll, quite different results are often obtained. If these latter percentages are higher than the percentage based on number of establishments, the difference reflects the fact that multi-industry companies tended to have larger establishments in the industry in which they were primarily engaged than they had in other industries, this larger size overcoming the dilution of average employment or payroll by smaller single-unit companies. Thus footwear manufacturing companies had more than 90 percent of their employment and payroll in that industry. The average

employment of their establishments in the industry was 167; their establishments in other industries, mainly retail stores as noted, averaged eight employees.

When employment or payroll data produced lower industry specialization percentages than did numbers of establishments, the companies primarily engaged in the industry must have had establishments in other industries which, on average, were larger than their establishments in their own industry. In the main, lower average employment or payroll of the latter establishments results from the smaller size of establishments owned by single-unit companies. For example, companies manufacturing motor vehicles and equipment had only 67 percent of their employment in that industry, although 87 percent of their establishments were so classified. These latter averaged 307 employees, whereas their plants outside the industry averaged 995 employees.

Dominance of Multiunit Companies

The leading role of multiunit companies is indicated by the percentages of companies, establishments, employment, payroll, value added or sales, and capital expenditures, among all companies primarily engaged in each industry, that were attributable to multiunit companies. Typically, multiunit companies made up less than 10 percent of all companies primarily engaged in a specific industry; their establishments accounted for roughly two or three times as large a percentage of all establishments owned by companies primarily engaged therein; and their employment, payroll, value added or sales, and capital expenditures generally ran to much larger percentages. Again the larger percentages for these latter measures, as compared with percentages for companies and establishments, reflected the larger size of establishments belonging to multiunit companies. In nearly every industry the average employment of establishments owned by such companies within that industry was much larger than that of establishments belonging to single-unit companies.

Generally, manufacturing and mining companies displayed the highest degree of multiunit specialization although it was also quite high for some others, particularly companies operating chain stores. A few manufacturing industries even had high percentages of companies that were multiunit enterprises, e.g., the blast furnace and steel mill industry, 63 percent; hydraulic cement manufacture, 60 percent; the pulp, paper, and board industry, 43 percent; and aircraft manufacturing, 31 percent. Their shares of establishments, employment, and so on tended to be correspondingly higher.

Much more information can be gleaned from this first report on company statistics by the Bureau of the Census. For example, it provides data on employment of multi-industry companies in each industry, distributed by the industry classifications of their establishments. In addition, the number of employees in sales branches and sales offices and in central administrative offices and auxiliaries can be determined for these companies. Still more detailed company statistics are available in unpublished tabulations described in the report.

For the first time, fairly complete data on the relative positions of single-unit, multiunit, and multi-industry companies within particular industries have been made available. They should add greatly to our knowledge of the structure of the economy. With the inter-industry relationships defined, it will be easier to bring information regarding the conditions responsible for these relationships to bear on the question of how activity is actually controlled in the American economy.

Bogey of Inflation

(Continued from page 2)

Hoover's directive, issued early in 1930, calling for the "strictest economy" on the part of all agencies.

Inflation fears sometimes derive, not from any current effects of the budget on activity, but from the increase in the money supply which might result from bank purchases of government securities. Ultimately, some such repercussions may be experienced, and if so, they shall have to be dealt with when the time comes. These fears, however, do not describe the current situation. During the past year, the important force making for the increase in the money supply has been Federal Reserve action. Now the Fed has shifted to the side of restriction, and the continuation of increases at anything like the same rate is in doubt.

Just a State of Mind

Aside from these questions concerning the deficit, the current, so-called "inflationary trend" is no more than a state of mind. It reflects "reassurances" of everybody by almost everybody else that the situation justifies price increases and that no one can afford to fall behind. It works best in the stock market, where mutual self-deception is bolstered by the lure of easy riches. It also works well in industries where competition is restricted enough to prevent price cutting.

Competition is not so altogether dead in our economy that these attitudes could really enforce general price inflation over an extended period. The fact is that prices in general are not going up; they have steadied just under the highs during the last few months. Prior to the revolution in Iraq, there were definite tendencies toward decline. There was no agreement on a steel price increase, for example, until after that outbreak. Almost throughout industry, since then, there has been the usual speculative upsurge. The over-all indexes would probably be going down were it not for Lebanon and Quemoy.

The only sound basis for expecting inflation in this country lies in the threat of large-scale war. Predictions of large increases in private investment next year on any other basis are little more than wishful thinking. The notion that consumption can show strong growth without something to push consumer income up is wholly unrealistic. Wage demands cannot be effective when unemployment is well above the minimum. There is practically nothing in the nonmilitary sector of the economy to justify fears of further inflationary pressure.

Unfortunately, the threat of war cannot be disregarded. But if war is to come, almost all the conclusions flowing from the current inflation psychology will probably turn out to be wrong. Properties may be destroyed and industrial operations disrupted. So long as the outcome is indeterminate, there can be no sure hedge against an inflation that might result from World War III. In that event, there can be no assurance about anything we hold dear, and we shall deceive ourselves least by writing the possibility out of the picture.

If conditions remain relatively peaceful, only the smaller portion of the range of possible outcomes would be inflationary. Over a greater range of probabilities, the prevalent widely-accepted thinking about inflation will likely prove fallacious. Current attitudes will then look more and more like an aberration, a temporary "standardization of error." The odds are that any recommendation for a person to buy, invest, or do anything else now because of future inflation is not worth acting on. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

More on the Party Line

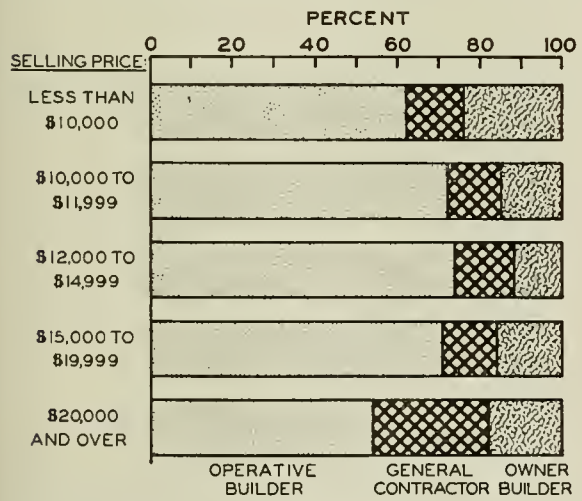
According to an annual survey made by the Crop Reporting Board, there were about 2.7 million farms in the United States with telephone service in 1957. This represents an increase of 70 percent since 1940, 24 percent since 1950, and 6 percent since 1955. In a few states, where a high percentage of the farms have telephones, the number of farms with telephones has been declining. As the percentage of farms with telephones approaches 100, there will be a decline in the actual number of farms with telephones if the present downward trend in the total number of farms continues.

The South Atlantic Division experienced the largest percentage increase in farms with telephones since 1940, followed by the East South Central, West South Central, Mountain, and Pacific Divisions. This was largely because a relatively low percentage of their farms had telephone service in 1940 as compared with other areas. Numerical gains in the Mid-Atlantic and North Central states were also substantial; however, their percentage gains were relatively smaller because about 2 out of every 5 farms in these states already had telephones in 1940. In the South, less than 1 out of 10 farms had telephones in 1940. New England was the only area where an actual decrease in number of farms with telephones has taken place since 1940; this has resulted from the decline in the number of farms.

Employment of Veterans

Average employment of World War II veterans during fiscal 1958 decreased 300,000 from the previous year's level of 13.9 million, according to the August issue of *The Labor Market and Employment Security*. The decline was part of the general economic downturn in the total labor market. Veteran employment at the beginning of fiscal year 1958 was at 13.9 million but dropped to a low of 13.3 million by February, 1958, after production cutbacks occurred in a variety of hard goods manufacturing industries. With the seasonal revival of outdoor activities in the spring, employment began to advance, reaching 13.5 million by June.

DISTRIBUTION OF HOUSES BY SALE PRICE AND TYPE OF BUILDER



Source: U. S. Departments of Labor and Commerce, *Construction Review*, August-September, 1958, p. 13.

Rise in Speculative Homebuilding

According to the August-September issue of *Construction Review*, the initiative in determining the amount and kind of housing to be built and its location has shifted increasingly from the user to the producer. It was reported that operative or speculative builders constructed about two-thirds of all single-family nonfarm houses started in the United States in 1955-56, compared with about half in 1949. The remaining third of the houses constructed in 1955-56 was about equally divided between general contractors and owner builders.

A substantial number of houses in a wide range of prices was constructed by each type of builder. Nationally, the operative builders started half or more of the houses in each price bracket (see chart). They were most dominant in the $10,000 to $14,999 price range, but also started about 70 percent of the houses priced between $15,000 and $19,999 in 1955 and 1956. The proportion of owner-built houses was highest in the price range below $10,000 in both 1955 and 1956, with 28 percent and 24 percent respectively. Of those houses constructed by general contractors, the largest share was in the $20,000-and-over class with 35 percent in 1955 and 28 percent in 1956.

At Home and Abroad

The Committee for Economic Development, 711 Fifth Avenue, New York 22, New York, has released a booklet entitled *The "Little" Economies*. This is the first document emerging from the CED's new area development program for the United States. It is not so much a report of things accomplished as a challenge to do the things that urgently need to be done. It draws attention to some of the problems which exist at the local level of the economy. Single copies may be obtained at 50 cents each, with discounts given for bulk orders.

The Office of Business Economics of the Department of Commerce has released a statistical supplement entitled *Balance of Payments*. It contains the principal statistics on the international business of the United States, including our balance of payments and international investment position. The report brings the basic statistical tables in the department's *Balance of Payments of the United States, 1949-51* up to date and provides, in one reference volume, extensive material previously available only from a number of separate sources. It sells for one dollar and may be obtained from the Superintendent of Documents, United States Government Printing Office, Washington 25, D.C.

Food Fats and Oils

Information released by the Agricultural Marketing Service indicates that food fats and oils are just as popular today as they were twenty years ago. It was estimated that 45 pounds of food fats and oils were consumed per person in 1957, the same amount as in 1935-39. Despite this apparent stability in consumption, there has been a gradual shift in today's diets toward the use of more margarine, cooking and salad oils, mayonnaise, and salad dressings. About the same amount of shortening but less butter and lard has been consumed per person.

LOCAL ILLINOIS DEVELOPMENTS

Most indicators of Illinois business activity gained from July to August. Coal production increased 46 percent; electric power consumption advanced 8 percent; farm prices, departing from the national tendency, rose 5 percent; and both manufacturing employment and department store sales in Chicago, seasonally adjusted, increased 2 percent. Construction contracts awarded experienced the largest decline (14 percent), followed by petroleum production (10 percent), life insurance sales (9 percent), and bank debits (7 percent).

Temporary Emergency Benefits

On June 20, 1958, a special session of the Illinois General Assembly passed a bill amending the Unemployment Compensation Act. The purpose of this amendment was to provide additional benefits during a temporary period for individuals who have exhausted their regular benefits.

The temporary emergency benefits under the new law are payable to any individual who is an "exhaustee" for any week between July 1, 1958, and March 31, 1959. In order to receive such benefits, an "exhaustee" need not wait a week to qualify; however, he must not be subject to disqualification for that week, and he must meet the same basic benefit eligibility requirements of the Unemployment Compensation Act. The amount of an exhaustee's weekly benefit is the same as his last regular weekly benefit, but the total emergency benefits cannot exceed 50 percent of the amount of regular benefits to which he was entitled during the year when he first became an "exhaustee."

In the first five weeks after the enactment of the new law, a total of 48,502 unemployed workers who had previously exhausted their regular unemployment benefits filed for temporary benefits. Payments during July for temporary emergency benefits totaled about $2.4 million.

Coal Production and Employment

According to data received from the State Department of Mines and Minerals, the production of coal from strip and shaft mines in 36 counties in Illinois totaled about 27.3 million tons during the first eight months of 1958, compared with 29.7 million tons produced during the same period in 1957. This represents a drop of 8 percent from the 1957 level. Although total coal production decreased, strip mine production increased from 12.3 million tons in 1957 to 12.7 million tons in 1958, an increase from 42 percent of total production to 47 percent.

Between January, 1958, and August, 1958, there was an average of 10,124 men working in coal mines, of whom 31 percent were in strip mines and 69 percent in shaft mines. The number of men working in strip mines increased 2 percent from 1957 whereas the number of shaft mine workers dropped 15 percent.

Sale of T. P. & W.

A special federal court in Minneapolis recently approved the sale of the Toledo, Peoria, and Western Railroad to the Santa Fe and Pennsylvania Railroads. The 240-mile line of T. P. & W. connects with the Sante Fe at Lomax, Illinois, and runs through Peoria to Effner, Indiana, where it connects with the Pennsylvania. This is an important by-pass around Chicago and St. Louis for transcontinental freight shipments. Besides the Santa Fe and the Pennsylvania Railroads, there are connections with fourteen other lines. The sale price to the Santa Fe was announced as $12.5 million, and in turn the Santa Fe will sell a half interest to the Pennsylvania.

Lake Sara Development Program

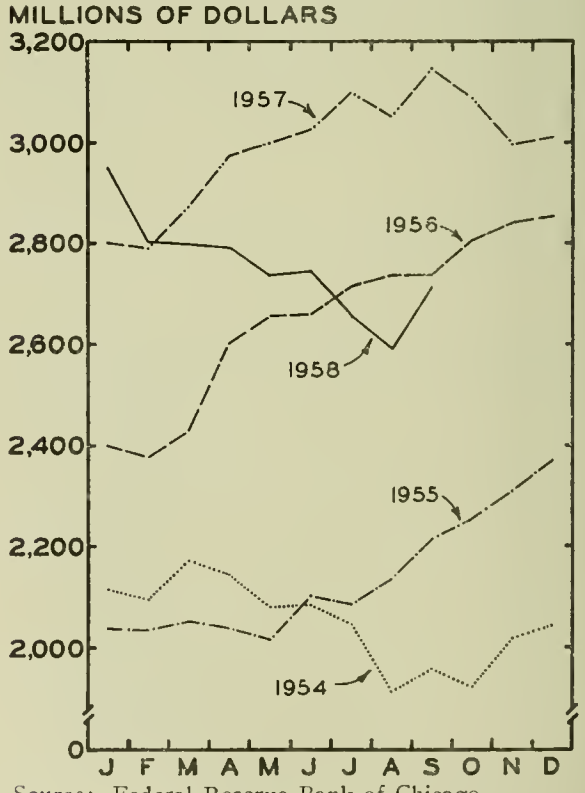
A report submitted to the Effingham Water Authority by Harland Bartholomew and Associates proposed a plan for the development of roads, parks, recreation, leased tracts, and residences in the Lake Sara area. The lake covers 750 acres, and the surrounding rolling hills and timber make up the remainder of the 2,300 acres in the project. More than 45 percent of the usable property — with 16 miles of shoreline — is allocated for homes. The plans call for about 330 acres to be set aside for single residences, 227 acres for cottages, and 21 acres for rental units. Recreational uses also are allocated large acreages. Approximately 380 acres have been proposed for use by recreational organizations and corporations, 230 acres for public recreation, and 76 acres for commercial recreation.

Business Loans in Chicago

Business loans at leading Chicago banks declined steadily from the high of $3.1 billion set in September, 1957, to a low of $2.6 billion in August, 1958, a drop of 18 percent. By mid-September, 1958, such loans were 5 percent above the previous month's level; however, they were still 14 percent below the September, 1957, level.

As may be seen in the accompanying chart, business loans increased fairly steadily from January, 1955, to September, 1957, the rise amounting to 55 percent. This advance was in marked contrast to the movements in the two recessionary periods of 1954 and 1957-58.

BUSINESS LOANS BY CHICAGO BANKS



Source: Federal Reserve Bank of Chicago.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$26,000[a]	1,148,324[a]	$494,044[a]		$14,694[a]	$14,354[a]
Percentage change from July, 1958	−13.2	+8.2	−4.4	+15	−7.6	+31.2
Percentage change from Aug., 1957	−28.6	−2.4	−7.1	−4	−5.4	+15.5
NORTHERN ILLINOIS						
Chicago	$17,943	847,038	$362,310		$13,381	$12,294
Percentage change from July, 1958	−19.7	+6.8	−5.1	+14	−7.8	+30.3
Percentage change from Aug., 1957	−24.7	−3.1	−4.7	−5	−5.6	+12.8
Aurora	$ 335	n.a.	$ 7,333		$ 64	$ 154
Percentage change from July, 1958	−63.8		−9.1	+17	−3.5	+46.6
Percentage change from Aug., 1957	−19.5		−6.0	+40	−0.2	+26.8
Elgin	$ 322	n.a.	$ 5,363		$ 42	$ 123
Percentage change from July, 1958	+100.0		−8.1	n.a.	−11.1	+98.2
Percentage change from Aug., 1957	−23.7		−8.5		−0.1	+46.0
Joliet	$ 710	n.a.	$ 9,095		$ 79	$ 103
Percentage change from July, 1958	+15.1		−7.5	+14	−2.4	+32.8
Percentage change from Aug., 1957	+57.4		−20.1	−5	−5.4	+31.7
Kankakee	$ 171	n.a.	$ 4,230		n.a.	$ 52
Percentage change from July, 1958	−21.6		−1.1	n.a.		+21.2
Percentage change from Aug., 1957	−93.2		−11.0			+3.1
Rock Island-Moline	$ 868	27,324	$ 9,916		$ 104[b]	$ 159
Percentage change from July, 1958	−38.0	+15.1	−2.6	n.a.	−8.4	+24.3
Percentage change from Aug., 1957	−5.1	+5.7	−3.8		+0.5	+27.4
Rockford	$ 969	42,769[c]	$15,242		$ 173	$ 234
Percentage change from July, 1958	+0.7	+5.7	−0.8	+12	−2.8	+57.3
Percentage change from Aug., 1957	+12.2	−4.7	−15.8	−9	−5.8	+35.1
CENTRAL ILLINOIS						
Bloomington	$ 417	9,070	$ 5,010		$ 69	$ 102
Percentage change from July, 1958	+52.2	+10.9	+1.2	n.a.	−7.5	+37.9
Percentage change from Aug., 1957	−80.4	+1.9	−10.5		+1.6	+28.3
Champaign-Urbana	$ 526	12,810	$ 7,122		$ 72	$ 118
Percentage change from July, 1958	+44.1	+1.0	−3.5	n.a.	−2.2	+44.1
Percentage change from Aug., 1957	+13.9	+9.2	−14.7		+6.2	+55.9
Danville	$ 215	13,973	$ 5,537		$ 48	$ 73
Percentage change from July, 1958	+32.7	+15.9	−0.3	+28	−5.4	+59.4
Percentage change from Aug., 1957	+72.0	+7.0	−14.1	+3	−3.9	+36.3
Decatur	$ 684	35,468	$10,426		$ 112	$ 119
Percentage change from July, 1958	+52.0	+10.1	−2.8	+15[c]	−8.4	+36.3
Percentage change from Aug., 1957	−12.2	+3.1	−16.3	+9[c]	−6.2	+31.8
Galesburg	$ 576	9,400	$ 4,280		n.a.	$ 42
Percentage change from July, 1958	+65.0	+11.7	+1.5	n.a.		+32.5
Percentage change from Aug., 1957	+104.3	+1.2	−7.8			+35.8
Peoria	$ 361	54,427[c]	$14,691		$ 210	$ 261
Percentage change from July, 1958	−43.1	+26.1	−3.2	+31[c]	−10.6	+25.5
Percentage change from Aug., 1957	−78.4	−11.4	−13.4	−4[c]	−7.2	+24.4
Quincy	$ 146	11,253[c]	$ 4,482		$ 41	$ 73
Percentage change from July, 1958	+60.4	+23.3	−1.5	+26	−8.5	+16.1
Percentage change from Aug., 1957	−52.1	−15.5	−12.0	−5	−1.2	+35.8
Springfield	$ 960	43,353[c]	$12,054		$ 119	$ 282
Percentage change from July, 1958	+55.3	+13.4	−0.4	+19[c]	−3.0	+33.0
Percentage change from Aug., 1957	+6.9	+8.1	−18.6	−3[c]	+1.9	+50.5
SOUTHERN ILLINOIS						
East St. Louis	$ 483	14,756	$ 8,333		$ 140	$ 71
Percentage change from July, 1958	+327.4	−4.6	+3.4	n.a.	−7.7	−11.8
Percentage change from Aug., 1957	+316.4	+1.0	−10.5		−4.8	+37.8
Alton	$ 205	15,024	$ 4,241		$ 42	$ 42
Percentage change from July, 1958	+173.3	+1.9	−4.1	n.a.	+2.4	+46.7
Percentage change from Aug., 1957	+272.7	−4.0	−15.0		+9.5	+48.1
Belleville	$ 109	11,659	$ 4,312		n.a.	$ 51
Percentage change from July, 1958	−44.7	+18.4	−2.4	n.a.		+53.2
Percentage change from Aug., 1957	−31.9	+19.9	−11.6			+41.6

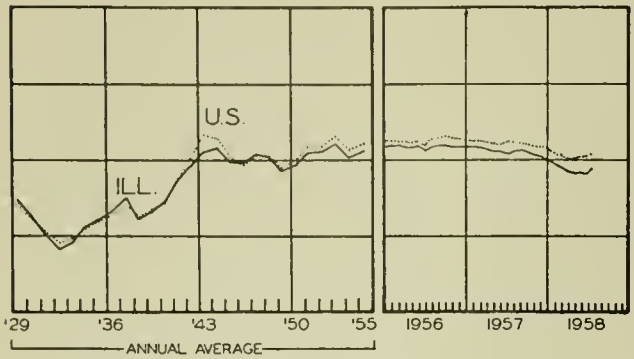
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for July, 1958. Comparisons relate to June, 1958, and July, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending August 22, 1958, and August 23, 1957.

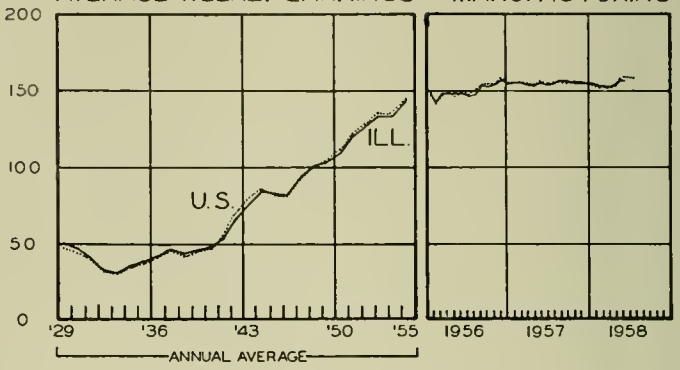
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

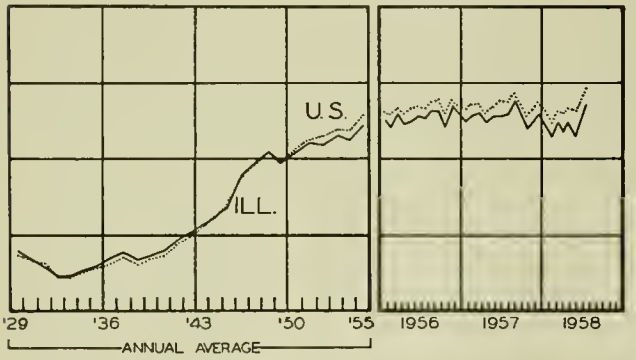
EMPLOYMENT MANUFACTURING



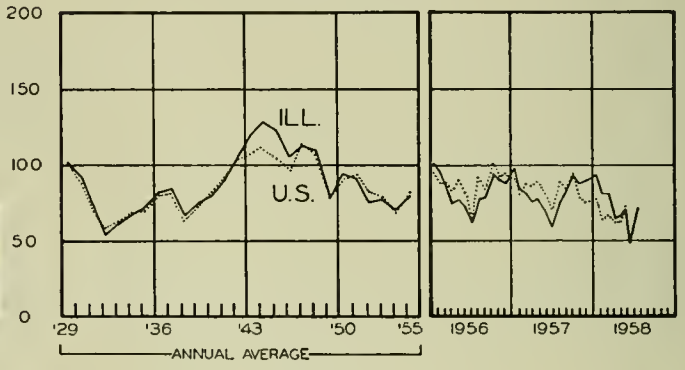
AVERAGE WEEKLY EARNINGS - MANUFACTURING



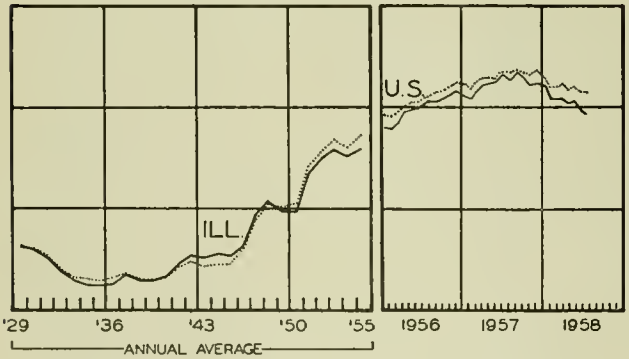
DEPARTMENT STORE SALES



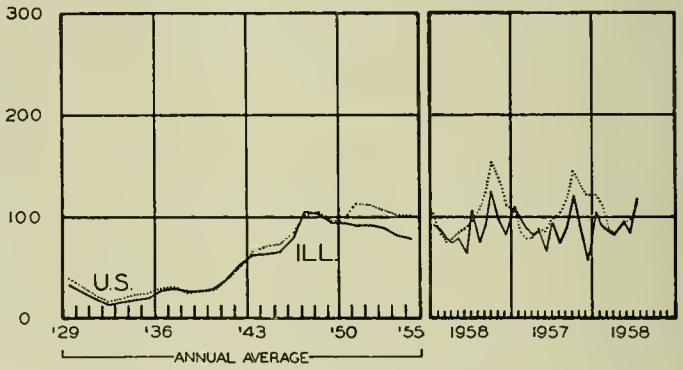
COAL PRODUCTION



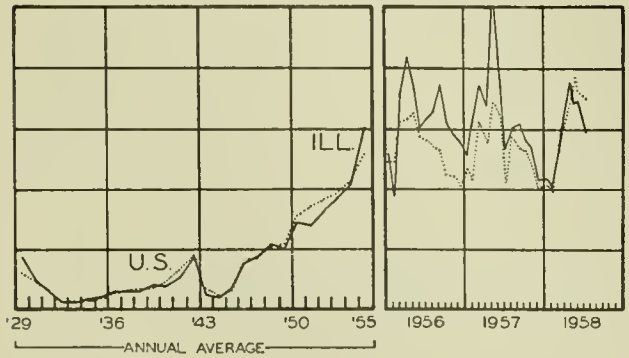
BUSINESS LOANS



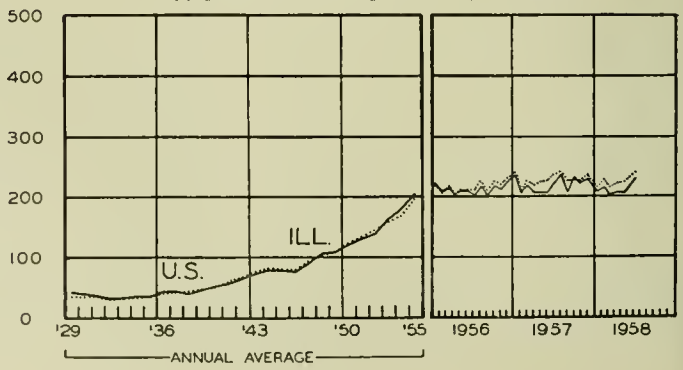
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN OCTOBER

Further gains in economic activity were made last month. The index of industrial production, which had climbed from the recession low of 126 (1947-49 = 100) in April to 137 by September, advanced to 138 in October on a seasonally adjusted basis. Employment rose 680,000 from mid-September to mid-October and unemployment declined 300,000, in both cases more than expected as a result of seasonal influences. Steel production averaged about 2 million tons a week, up nearly a quarter of a million tons from the average for September and close to the year-ago rate. Auto producers turned out about 260,000 passenger cars in October, almost twice as many as in September, although labor disputes kept output 20 percent below October, 1957.

Other segments of the economy showed mixed movements. Paperboard production and electric power output were at near-record levels, but petroleum output, though still about 2 percent above last October, declined from September. Production of lumber held above last year's rate, but heavy construction awards declined sharply and fell below the same month of last year. Bituminous coal output and freight carloadings, up from earlier months, were still well below October, 1957.

Auto Sales Up

Sales of passenger cars by dealers rose to 292,000 units in October, up nearly 37,000 from the low September deliveries. During the last ten selling days of the month, sales averaged more than 12,000 cars per day. In October last year, sales amounted to about 429,000 cars, a daily average of about 15,600 cars.

Stocks in dealers' hands are currently estimated at around 300,000, a level so low as to hamper sales. The industry is reported to expect an output of about 1,130,000 new cars during the last two months of the year, nearly the same as in the corresponding months of 1957.

Construction Above Last Year

The value of new construction put in place during October was only $70 million below the record $4.8 billion reached in September and exceeded the October, 1957, figure by 3 percent. It carried the ten-month total to $41.1 billion, 2 percent above the corresponding period in the past year.

Private spending on new construction in October, at $3.2 billion, was down 1 percent from September but up 2 percent from the like month in 1957, bringing the ten-month figure almost to that for January-October of the past year. Gains in homebuilding and in some types of nonresidential construction have largely made up for a big drop in industrial construction.

Public construction in October was off $40 million from the September figure of $1.6 billion but was 7 percent above October, 1957. For the first ten months of 1958 public spending on new construction was 6 percent ahead of the $12.1 billion spent in the corresponding period last year, with highways and public housing contributing most of the gain.

Inventory Liquidation Slows

The book value of manufacturing and trade inventories was reduced by $350 million in September on a seasonally adjusted basis, the smallest decline since last December. About half of the drop during the month took place in manufacturing and half in retailing, the latter resulting from reduction in stocks held by auto dealers. At the end of September, the total value of business inventories amounted to $85.0 billion, more than $6 billion below the year-earlier stocks.

Sales by manufacturers and distributors rose $200 million in September to an adjusted $54.6 billion. Gains by manufacturers and wholesalers more than offset a $300 million decline in retail sales. Durables and nondurables shared about equally in both the advances and losses.

New orders received by manufacturers increased $700 million to $26.8 billion in September after allowance for seasonal influences. The total for the month was $200 million above September, 1957. About two-thirds of the gain came in the durable goods industries. Unfilled orders of manufacturers declined $600 million on an unadjusted basis to $46.1 billion, as shipments exceeded new orders. This backlog, held almost entirely by durable goods producers, was about $10 billion under the total a year ago.

Farm Support Spending Up

The federal government now expects to pay out about $6.4 billion in the fiscal year ending June 30, 1959, to support prices of farm products. Record harvests have forced a revision in the January estimate of $4.6 billion. The new figure not only exceeds the record $4.9 billion paid out three years ago, but is more than double any total paid prior to 1953.

By the end of September, farmers had taken out support loans on more than 380 million bushels of wheat. In the previous record year of 1953, only 350 million bushels were under loan by mid-October. It is expected that barley, grain sorghums, and soybeans will also establish records for quantities under loan.

CONSUMER DURABLES IN THE 1957-58 RECESSION · By W. W. McMahon · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Unemployment Problems

It is time for all users of federal statistics to speak out against the abuses of recent months. These have not been confined to but are well illustrated by the unemployment reports.

On Halloween, in the guise of presenting facts necessary for intelligent choice by the voter, President Eisenhower dipped into the processes of statistical reporting to extract the monthly data on unemployment, which showed an unadjusted decline of 300,000 in October. The implication was misleading, since this was mostly a seasonal movement of no lasting significance; in the meaningful sense of seasonally adjusted figures, unemployment declined only 100,000.

This political speech apparently lacked effectiveness. The people's response at the polling places highlights the fact that seasonally adjusted unemployment in October was still nearly 5 million. Furthermore, several times that number had suffered some unemployment during 1958; and in the month preceding the election, record numbers were removed from the roster of those receiving unemployment compensation because they had exhausted their benefit rights.

Deceptive Reporting

The misuse of the unemployment data had its beginning last February, when similar use was made of a Labor Department report stating that a decline in unemployment would begin in March. This expectation was based on the fact that there is a normal seasonal decline of nearly 5 percent from February to March. In this instance, the cyclical effect was stronger than the seasonal, so that unemployment rose by 25,000. The seasonally adjusted rise was 230,000.

At the end of March, Secretary of Commerce Weeks rejected a request by AFL-CIO President Meany for early release of the March data. He showed that he clearly understood the impropriety of modifying procedures for purposes of the moment. In April, however, when the unadjusted data showed a decline of 78,000, he was eager to reveal the "improvement" and released the data ten days ahead of schedule. Seasonally adjusted unemployment rose by another 270,000, to a postwar high of 5,170,000 in April.

The reliance on unadjusted data was abandoned in May in the face of the usual summer upswing in job seekers. Prior to the release of the May data, Secretary of Labor Mitchell "explained" that May and June increases in the number of jobless would not be a cause for concern, but would merely reflect the normal influx of students into the labor market. When the May increase proved to be less than the usual amount, that fact was promptly announced.

After the usual summer bulge had reversed, however, the emphasis was again placed on the unadjusted data, calling attention to declines from the unadjusted June peak. Seasonally adjusted unemployment reached a new high of 5,240,000 in August. Over the next two months, declines were mainly of a seasonal character. The unadjusted total of jobless dropped to 3,810,000 in October, but the adjusted total declined only to 4,850,000, or only 8 percent below the August high.

Perhaps the principal offender in this sorry chronicle is Secretary Weeks, in whose Department the data originate. Nevertheless, Secretary Mitchell and the report writers in both departments cannot escape a share of the responsibility. When government statistical reporting is handled in such a way as to promote misunderstanding, the basis for the whole operation tends to be undermined.

Prosperity Without Employment

The predominant view of the economy today is one of rosy optimism, and the continuing high rate of unemployment is cited merely as a qualification on otherwise grandiose expectations for the future. The "natural forces of recovery," it is said, "will soon take care of the unemployed." It is difficult, however, to find the justification for this view. There is no sound basis for assuming that the economy will continue to advance from the 1958 highs currently being realized in the fourth quarter. But there is every reason to believe that in the absence of expansionary forces, unemployment will rise as a result of increasing productivity and growth in the labor force.

Factory employment has declined sharply in relation to production since 1953. At the July, 1953, peak, industrial production was 137 and employment in manufacturing and mining totaled 18.3 million. In September, 1958, production was again 137, but employment was only 16.2 million. By September, production had recovered over half of the decline from the August, 1957, rate of 145 to the April low of 126, but employment had recovered only one-seventh from the low reached in May.

In construction, there has been a similar lack of response in employment. Despite large percentage increases in construction contracts in recent months, September employment of 2.7 million was 200,000 below the high reached in June, 1957. The contract data are, of course, in dollar terms and partly reflect higher prices. Also the "product mix" has changed; there is more highway construction as compared with nonresidential building, and more apartments as compared with one-family residences. These factors explain part of the divergence, but there is nothing in the current picture to suggest the recovery of construction jobs even to the 1957 peak.

In trade and services, also, the recovery has been far from complete. Employment in trade establishments was still almost 300,000 below the 1957 peak in September, after recovering 74,000 from the April low. The finance and services group shows similar movements. Farm employment has continued down this year.

Government is the only sector in which employment has advanced during the past year, rising 300,000 from

(Continued on page 8)

SPORTS AND SPORTING GOODS

The widespread popularity of sports in America has paralleled the rise of technology. The growth of mass production since the Civil War, leading to increased leisure time, has given Americans greater opportunity to become interested in sports and recreation. Moreover, increasing urbanization — also resulting from technology — enhanced the possibilities of organized athletics. Until the Civil War period, athletic activities were in general public disfavor because the average adult had little time for play. Only the wealthier could afford the luxuries of sporting events.

But by the turn of the century, the masses found time not only to watch athletic contests but to participate as well. Newspapers reflected and stimulated the almost fanatical athletic craze with the introduction of the sports page. Physical programs became an important and prominent adjunct to educational institutions. The prejudice against sports before the mid-1800's changed into an avid national passion by the 1900's.

The growth of athletic equipment manufacture was, of course, concurrent with national interest in sports. About 220 establishments produced the bulk of the nation's equipment in 1899. By 1939, the number of establishments had grown to 350 and the value of goods shipped reached $65 million, nearly 13 times that of 1899.

The Industry Today

The continued upward trend in national income and leisure time has led to greater expenditures on sporting and athletic goods in the post-World War II era. The value of shipments by manufacturers of sporting goods rose from $202 million in 1947 to an estimated $310 million in 1957. Moreover, the postwar era has stimulated the growth in the number of sporting goods manufacturing establishments to more than 1,000 compared with 863 in 1947. The increase in factories is attributed to greater specialization of product, especially the numerous newer "gadget" sporting items, and to an increase in different types of playground equipment.

Last year sales totaled more than $163 million for the 75 leading firms. Of this amount, golf equipment accounted for 37 percent, followed by baseball and softball equipment (20 percent), athletic shoes (14 percent), inflated goods (9 percent), tennis, badminton, and related equipment (5 percent), athletic clothing (4 percent), and helmets and pads (4 percent). These figures do not include many of the major manufacturers of fishing and playground equipment. The number of retail outlets selling sporting goods is believed to have increased since World War II. However, the actual count is unknown because in addition to the 8,300 specialized sporting goods stores, there are many non-sports stores which carry limited lines. Estimates place the total number of outlets between 10,000 and 20,000.

Despite the impact of television in absorbing leisure time, participation sports have grown in popularity since World War II. Much of this, however, can be attributed to population increases. Fishing has remained the most popular, followed by bowling and hunting. Nearly 19 million fishing licenses were issued in 1956, compared with 12 million in 1946. Hunting licenses increased from 12 million to 15 million in the same period. Nearly 18 million bowlers used the nation's 9,000 bowling establishments in 1956. The value of fishing tackle shipments, which comprised nearly one-fifth of the total sporting goods shipments in 1954, jumped from $58 million to $67 million between 1947 and 1954.

Last year nearly 6 million persons played golf, compared with only 4 million in 1948. The number of public and private golf courses has risen nearly 20 percent to 6,000 in the same period. Baseball and softball together have about 3 million adult players and countless numbers of youthful players.

Illinois — Fourth in the Nation

The Midwest leads the nation in production of sporting goods. Three of its states — Ohio, Michigan, and Illinois — make nearly two-fifths of the country's total. Illinois, which in 1954 ranked fourth in value added by manufacture, accounted for nearly 10 percent of the national total. The 81 plants in Illinois are exceeded in number only by those in California and New York. Establishments in this State are small, as they are in most states. The average Illinois plant employed about 30 persons and added $183,000 by manufacture in 1954, the year of the last *Census of Manufactures.*

Illinois produces a wide variety of equipment for sports, but the State's principal products are fishing and golf equipment, which together account for about a third of total manufacture. Nearly 25 firms, most of which are located in the Chicago area, manufacture sundry items for the fisherman, such as nets, reels, tackle boxes, and lures.

Most of the golf club manufacture is handled by four large firms, also found in the Chicago area. However, there are about twenty other firms which produce golf supplies and accessories.

Among the most prominent of the State's major sporting goods firms is the Wilson Sporting Goods Company, at River Grove. The company, which employs nearly 2,500 persons, is the State's largest manufacturer of a complete line of sporting equipment.

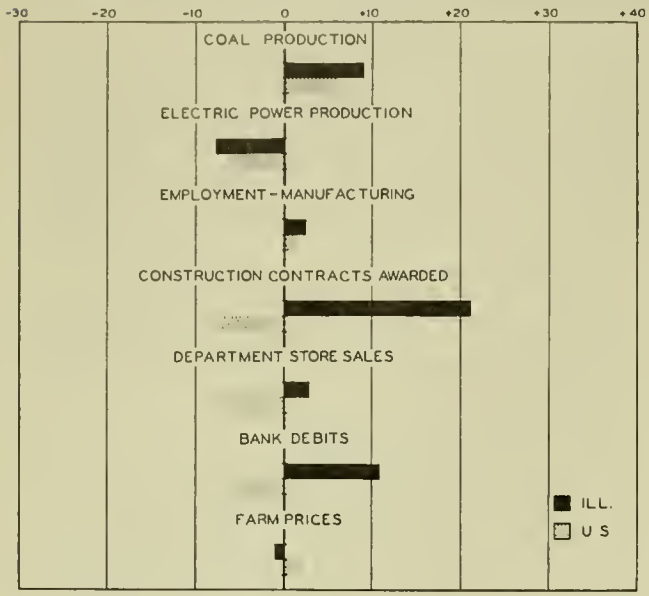
Illinois is also a center of bleacher and scoreboard manufacture. Two Champaign-Urbana firms together manufacture about three-fourths of the national total of portable wooden bleachers. In addition, telescoping gymnasium bleachers are made in the Twin Cities. The State's only producer of automatic scoreboards, located in Greenville, makes more than half of those used in the Midwest.

The sporting goods industry has shown noticeable production increases in the Southern and Western states in the past decade. Although the industry has grown in most states in the same period, the rate has been much lower in the Midwest and the East. However, because the latter sections hold a considerable edge in production, it is unlikely that any major shifts will offset their advantage for a number of years to come.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1958, to September, 1958



ILLINOIS BUSINESS INDEXES

Item	September 1958 (1947-49 =100)	Percentage change from August 1958	Percentage change from Sept. 1957
Electric power[1]	n.a.		
Coal production[2]	78.3	+ 9.0	− 4.6
Employment—manufacturing[3]	95.0	+ 2.5	−10.8
Weekly earnings—manufacturing[3]	157.8[a]	+ 0.6	+ 2.4
Dept. store sales in Chicago[4]	119.0[b]	− 2.3	− 4.0
Consumer prices in Chicago[5]	127.4	+ 0.4	+ 2.5
Construction contracts awarded[6]	360.0	+21.2	+16.8
Bank debits[7]	186.4	+10.9	+ 4.6
Farm prices[8]	87.0	− 1.1	+ 3.6
Life insurance sales (ordinary)[9]	282.0	+ 4.2	+ 8.0
Petroleum production[10]	125.9	− 1.2	+ 2.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] August data; comparisons relate to July, 1958, and August, 1957. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	September 1958	Percentage change from August 1958	Percentage change from Sept. 1957
	Annual rate in billion $		
Personal income[1]	357.5[a]	+ 0.4	+ 1.7
Manufacturing[1]			
Sales	320.4[a]	+ 1.1	− 5.3
Inventories	49.2[a, b]	− 0.4	− 9.1
New construction activity[1]			
Private residential	20.9	+ 1.4	+ 8.1
Private nonresidential	17.8	− 0.7	− 5.5
Total public	19.3	+ 1.1	+ 7.3
Foreign trade[1]			
Merchandise exports	16.8[c]	− 1.6	−16.8
Merchandise imports	11.4[c]	− 9.3	− 8.6
Excess of exports	5.3[c]	+20.2	−30.2
Consumer credit outstanding[2]			
Total credit	43.2[b]	+ 0.0	+ 0.5
Installment credit	33.2[b]	− 0.2	− 0.0
Business loans[2]	30.2[b]	+ 1.2	− 6.7
Cash farm income[3]	34.3[c]	+ 4.3	− 2.5
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	137[a]	+ 0.7	− 4.9
Durable manufactures	144[a]	0.0	−10.0
Nondurable manufactures	134[a]	+ 0.8	+ 2.3
Minerals	123[a]	+ 2.5	− 4.7
Manufacturing employment[4]			
Production workers	94	+ 1.2	− 8.6
Factory worker earnings[4]			
Average hours worked	100	+ 0.5	− 0.3
Average hourly earnings	161	+ 0.5	+ 2.9
Average weekly earnings	161	+ 1.0	+ 2.6
Construction contracts awarded[5]	325	− 7.2	+22.5
Department store sales[2]	136[a]	− 7.5	0.0
Consumer price index[4]	124	0.0	+ 2.1
Wholesale prices[4]			
All commodities	119	0.0	+ 0.9
Farm products	93	− 0.1	+ 2.3
Foods	111	− 0.1	+ 4.4
Other	126	+ 0.1	+ 0.2
Farm prices[3]			
Received by farmers	95	+ 2.2	+ 5.6
Paid by farmers	122	0.0	+ 3.4
Parity ratio	85[d]	+ 2.4	+ 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for August, 1958; comparisons relate to July, 1958, and August, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958 Oct. 25	1958 Oct. 18	1958 Oct. 11	1958 Oct. 4	1958 Sept. 27	1957 Oct. 26
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,410	1,411	1,453	1,406	1,483	1,643
Electric power by utilities mil. of kw-hr.	12,174	12,048	12,067	12,111	12,342	11,787
Motor vehicles (Wards) number in thous.	87	60	47	49	57	127
Petroleum (daily avg.) thous. bbl.	6,919	6,893	6,874	7,014	7,100	6,766
Steel 1947-49=100	118	116	112	110	105	119
Freight carloadings thous. of cars	674	696	686	677	673	704
Department store sales 1947-49=100	140	146	147	146	136	136
Commodity prices, wholesale:						
All commodities 1947-49=100	118.6	118.8	118.8	118.8	118.9	117.8[a]
Other than farm products and foods 1947-49=100	126.1	126.1	126.1	126.0	126.0	125.8[a]
22 commodities 1947-49=100	87.0	86.7	85.9	85.6	85.8	84.5
Finance:						
Business loans mil. of dol.	30,315	30,446	30,223	30,287	30,247	31,807
Failures, industrial and commercial number	275	288	271	301	268	281

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for October, 1957.

RECENT ECONOMIC CHANGES

Consumer Credit

After rising in August for the first time since February, installment debt turned down again in September. Extensions of new credit during the month amounted to $3,341 million, while repayments totaled $3,401 million. Thus, seasonally adjusted installment debt fell by $60 million in September to a total of $33.1 billion.

In September last year, new credit extensions were $128 million greater than repayments, and at the end of the month, total installment debt outstanding was $257 million above this year's September level.

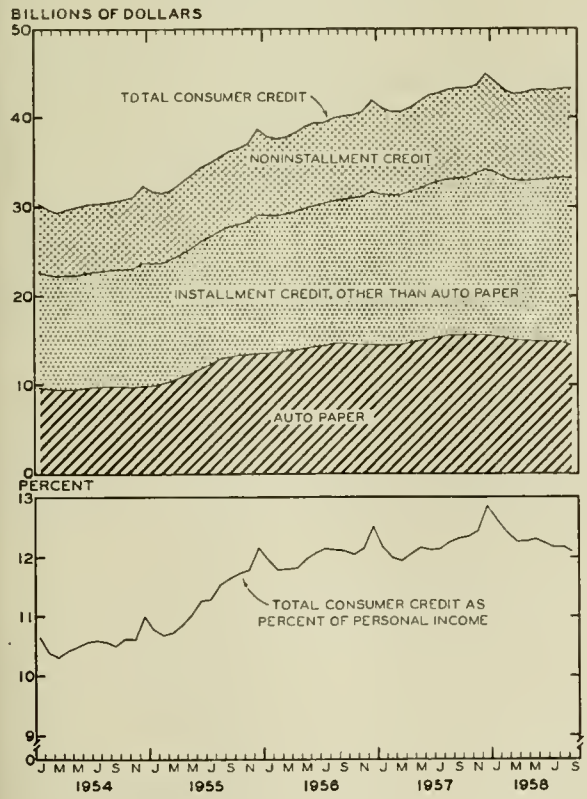
The latest decline in credit extensions resulted mainly from a drop in new auto installment debt caused by the low level of auto sales. Continuing the decline which began in November, 1957 (see chart), auto loans fell further in September as consumers kept on paying back old loans faster than they took on new obligations.

Noninstallment credit in September rose an adjusted $70 million, and at the end of the month, stood just above $10 billion. The increase in noninstallment debt more than offset the decline in installment credit and pushed total consumer credit up $10 million to a seasonally adjusted $43.2 billion.

Gross National Product

The value of the nation's output of goods and services rose to an annual rate of $440 billion in the third quarter, according to preliminary estimates made by the President's Council of Economic Advisers. The third quarter figure represents a gain of $11 billion over the previous period and a $14 billion increase over the recession's low of $425.8 billion in the first three months of this year. However, the nation has still not completely made up the loss from the peak level of $445.6 billion registered in the third quarter of last year.

CONSUMER CREDIT



Source: Federal Reserve Board.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1958*	*2nd Qtr. 1958*	*3rd Qtr. 1957*
Gross national product	440.0	429.0	445.6
Personal consumption	292.0	288.3	288.3
Durable goods	36.5	35.6	40.4
Nondurable goods	143.0	141.4	140.5
Services	112.5	111.3	107.4
Domestic investment	54.5	49.2	66.7
New construction	36.3	34.9	36.6
Producers' durable equipment	22.3	22.3	28.0
Change in business inventories	−4.0	−8.0	+2.2
Nonfarm inventories only	−4.4	−7.8	+1.3
Foreign investment	.5	.5	3.6
Government purchases	93.0	90.9	87.0
INCOME AND SAVINGS			
National income	n.a.	352.4	368.7
Personal income	357.5	349.8	351.8
Disposable personal income	314.0	307.5	308.7
Personal saving	22.0	19.2	20.4

* Preliminary estimates by Council of Economic Advisers.

An important factor in the latest increase in GNP was the slowdown in the rate of inventory liquidation. During the third period businesses reduced inventories at half the rate of the preceding quarter (see table). Mainly as a result of this cutback in inventory liquidation, gross private domestic investment rose $5.3 billion. Also contributing to the advance was the first upturn in the annual rate of residential construction since the final quarter of 1957. It went up from $16.2 billion in the second quarter to $17.9 billion in the last three-month period.

Personal consumption spending rose to a record rate of $292.0 billion in the third quarter, while spending on consumer durable goods showed the first advance since the business downturn began last fall. However, durable goods spending by consumers was still considerably behind the $40.4 billion rate of the 1957 third quarter.

Passenger-Car Tire Shipments

The slump in the automotive industry this year has resulted in sharply lower sales of original equipment passenger tires by rubber manufacturers. Shipments to retailers in the first nine months is expected to total about 15.1 million units, or 38 percent less than the 24.5 million shipped in the same period last year.

Increased sales of replacement passenger tires, however, helped to cushion the decline in shipments of original equipment tires. Paced by September shipments of almost 5.3 million units, replacement tire sales for the first nine months of the year rose to about 48.4 million units, up 4.5 percent from 46.3 million in the like 1957 period.

Total passenger car tire shipments, including exports, were a little above 64 million for the first nine months of the year. This represents a drop of more than 10 percent from the 71.5 million units shipped in the corresponding 1957 months.

Railroad Earnings

Earnings of the nation's Class I railroads in September were $9 million above the $64 million net income of

(Continued on page 8)

CONSUMER DURABLES IN THE 1957-58 RECESSION

WALTER W. McMAHON, Assistant Professor of Economics

Consumer durable goods expenditures have played an important and interesting role in the 1957-58 recession. This experience is, however, only a part of an often-repeated and continuing pattern of fluctuations in durable goods expenditures. These fluctuations are violent when compared with the relative stability of other categories of consumer expenditure.

Through rapid purchase of new durables, consumers periodically get themselves into a position where their stock of consumer durable goods is high relative to their income. In the process, consumer debt outstanding, which is also a stock-type measure, likewise increases more rapidly than it is paid off and reaches a high level relative to consumer income. It must be stressed that it is not large durable and debt stocks that are the problem, but instead a large stock of durables and a large stock of outstanding consumer debt *relative to consumer income*. Consumer income is not the only basis of the ability of consumers to carry these stocks, but it is the primary one.

Once the desire to correct this situation is stimulated, the easiest method for consumers is to stop adding to their stock of durable goods. This reduces new durable purchases and additions to debt; and perhaps some consumer expenditures are shifted, say, from durables to services. Then continued installment payments will bring the installment-credit level down, and regular wearing out will operate to reduce the size of durable stocks. If other factors permit, stock levels will gradually be readjusted toward an equilibrium between stocks and income. The only difficulty is that income may have fallen in the meantime, and in this event further accelerated reductions in durable goods expenditures will be required.

The Shift From Durable Goods

The consumer durable goods industries are currently in the process of recovering from the reductions in consumer durable goods expenditures which began to occur in July, 1957. During the decline from the third quarter of 1957 to the second quarter of 1958, consumers cut back their expenditures on consumers' durable goods by about $5 billion. During the same period they increased their spending on consumer services by $3.9 billion and on nondurables by $900 million. In real terms, expenditures on consumer services increased by only $1.6 billion, so much of the increased expenditure on services reflects increases in the prices of services.

Consumer credit outstanding was reduced seasonally by $2.2 billion from December, 1957, through March, 1958, as repayments caught up with new consumer credit extensions. Total consumer expenditures fell only very slightly during the recession, but the shift of expenditures away from durables has had important repercussions on the consumer durable goods industries.

It is not only the automobile industry, but also firms producing television sets, radios, washing machines, and furniture that have been affected by this shift in consumer spending. Table 1 suggests the severity of output reductions that began in most durable goods concerns in August, 1957, and that have been experienced by consumer durable goods industries in general. Output reductions have, of course, been accompanied by unemployment in these industries. Only heating apparatus output departs from the general pattern of decline. This can be attributed in part to unusually low output in that line in August, 1957, and in part to the remarkable and fortunate stability of expenditures for residential construction throughout the 1957-58 recession.

TABLE 1. CHANGES IN OUTPUT AND PRICES OF CONSUMER DURABLE GOODS

	Percent change in	
	Output Aug., 1957-Apr., 1958	Prices Aug., 1957-Aug., 1958
Automobiles	−47	+3.2
Television sets	−49	− .4
Radios	−39	−1.2
Household appliances	−26	+ .1
Furniture	−10	− .2
Heating apparatus	+ 9	− .7
Misc. household durables	−10	+ .6

Price Behavior in Durable Goods Lines

Durable goods manufacturers met falling consumer demand primarily with cuts in output rather than with price reductions. The extent and nature of this price inflexibility at the wholesale level is suggested in Table 1. The failure of motor vehicle and other durable prices to fall significantly in a period when demand and output reductions reached 40 percent in several industries reflects the prevalence of administered prices at the manufacturing level in this sector of the economy.

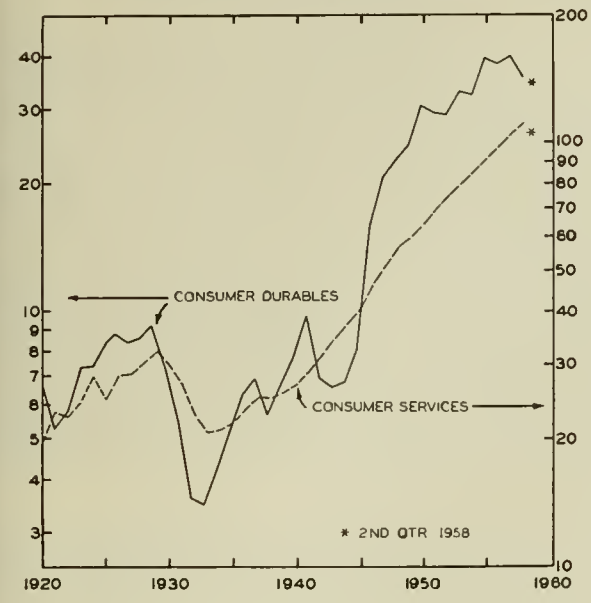
A reduction by manufacturers in the price of durable goods would have stimulated sales of durable goods and retarded the shift to consumer services. But such price reductions in durables were insignificant and are not expected in moderate future declines. Table 1 does not give the complete picture, since it takes no account of trade-in allowances, the activity of discount houses, and other forms of retail price shading. It is not known whether these may have resulted in some reductions in the effective price to the consumer over the past year. But if so, they must have been absorbed primarily at the retail level, where firms possess far less oligopolistic influence over prices.

Another factor has been operating on all consumer prices. During the recession, many consumers have been downgrading, that is, buying the cheaper rather than the more expensive products in each product line. For example, sample data from the Michigan Survey Research Center show a reduction in the percentage of consuming units planning to buy new automobiles and an increase in the percentage planning to buy used automobiles as the recession got underway. Downgrading has affected telephone utilities by reducing the number of consumers who want to upgrade from two- to one-party service, and may also be a factor in the greater popularity of small domestic and imported automobiles.

The major firms producing consumer durable goods have complete product lines running from deluxe to economy offerings. Where this condition exists, and where the firm in question is one of a relatively small number of firms in the industry, the margin over variable costs on the deluxe product tends to be larger than the margin on the economy product. When consumers downgrade, therefore, it has the effect of a price reduction absorbed by the producer since he is selling products that have

CHART 1. CONSUMER EXPENDITURES ON DURABLES AND SERVICES

(Billions of current dollars)



lower profit margins. Recognizing these several types of disguised price reductions, the dominant fact is the lack of significant price reductions in the consumer durable goods industries. These are the very industries that experienced the sharp reductions in consumer demand.

Consumption, Saving, or Investment?

An explanation of the violent fluctuations in consumer durable goods expenditures requires a look at the basic nature of such an expenditure as well as a look at factors associated with this aspect of consumer behavior.

The expenditure by a consumer for a durable good has some of the characteristics of a consumption expenditure. It also has some of the characteristics of saving by the consumer in durable-good form. More importantly, however, an expenditure on a durable has the characteristics of an investment expenditure on a consumer capital good that is not to be consumed or used up immediately but is instead expected to render a flow of services to its owner over a fairly long period of time. An important distinction is made, therefore, between an expenditure on (or investment in) a durable good and the actual consumption or using up of that good. This is in sharp contrast to expenditures on consumer services which are identical to the consumption or using up of those services.

It is because expenditures on durables have so many of the characteristics of an investment expenditure that they fluctuate so violently relative to expenditures on services (see Chart 1). Consumption, or the using up of durable goods, as approximated by depreciation estimates, behaves in a relatively stable fashion similar to outlays on services (see Chart 2). Therefore, expenditure on durables fluctuates violently, but consumption of the services provided by durables does not. Consumers can reduce *expenditure* on durables without the necessity of reducing *consumption* of the services of durables because of the existence of their durable goods stocks.

Consumer expenditures on services tend to increase with income, but they lag behind changes in income. Particularly in a recession, when income falls temporarily, consumers find it difficult to adjust their consumption levels downward. The maintenance of consumer expenditures on services during the 1957-58 recession while expenditures on durables were sharply reduced is therefore not surprising. The following percentage changes in durables and services indicate the same behavior in all three postwar recessions:

	Durables	*Services*
3rd qtr., 1948, to 1st qtr., 1949	− 5.1	+2.1
2nd qtr., 1953, to 4th qtr., 1953	− 6.6	+3.1
3rd qtr., 1957, to 1st qtr., 1958	−10.2	+2.5

Expenditures on services would, of course, not be maintained in the face of falling income through a recession of longer duration. In a similar fashion, the stream of consumption services rendered by consumer durable goods stocks would diminish as failure to invest in new additions to the stock allows the stock to deteriorate.

Consumer Stock Disequilibrium

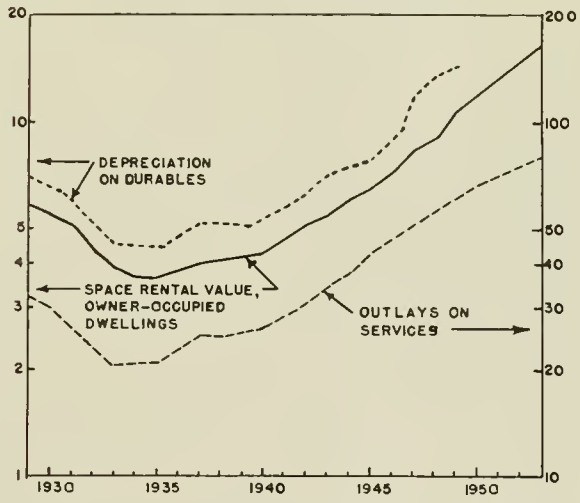
Several factors seem to encourage consumers to accumulate durable and credit stocks at a rate that exceeds the rate of increase in their income. This process tends to develop a stock disequilibrium situation, and together with a shift in one or more of the factors that helped to produce it, results in a decline in new consumer outlays on durable goods. Once underway, changes in new outlays are further accentuated by an acceleration effect.

Price relationships between durables and consumer services are significantly associated with the purchase of those new durables which lead to stock accumulation. The prices paid for consumer services as a group, for example, have advanced 39 percent since 1947. Consumer durable prices have increased only 18 percent in the same period. This factor would encourage the consumer to substitute services from a durable which he can acquire for services otherwise purchased from business concerns. For the same reason, if rents rise faster than the price of houses, the consumer is encouraged to buy or build.

Focusing on the business cycle, the failure of durable prices to fall, which has already been discussed, certainly does not encourage the shift from services back toward durables. However, the prices of most services continued

CHART 2. CONSUMPTION OF SERVICES

(Billions of current dollars)



Sources: U. S. Department of Commerce, *1954 National Income Supplement*, p. 207; and R. W. Goldsmith, *A Study of Saving in the United States*, Vol. 1, p. 685.

to rise throughout the recession and are currently continuing to rise, although at a slower rate. This means that the prices of durables relative to the prices of services are falling. This factor is probably now encouraging the shift back toward durable stock accumulation.

Other factors are more difficult to measure. Scattered data suggest that consumer expectations of increased prices and of rising income in the future encourage stock accumulation. Institutional developments in the field of installment credit financing of durable goods may also encourage consumers to accumulate stocks of durables at a rate that exceeds the rate of increase in their incomes. To the extent that these institutional arrangements and favorable credit terms remain permanent, a new higher stock-to-income equilibrium ratio is established.

How Much Will Durable Goods Recover?

It is interesting to examine the operation of each of these factors in the recovery from the 1957-58 recession which is still underway.

Consumer gross additions to their durable goods stocks were occurring at a slower rate and existing stocks had continued to deteriorate through obsolescence and use when personal income turned up in March of this year. Consumer debt had been reduced through normal installment repayments, and credit conditions were eased in March and April. The prices of most consumer services and nondurables had continued to rise throughout the decline so that durable prices were lower in April relative to the prices of services. Each of these factors was favorable to a recovery in the sales and output of most durable goods which then began in April and May of 1958.

So far, the recovery in durables, especially in automobiles, has been moderate. By the third quarter of 1958, consumer expenditures on durables had regained only about half of their recession losses. The factors associated with this recovery have not yet shifted significantly to the negative side. Cyclical forces usually produce faster changes in durables on the upswing as well as on the decline, and a strong recovery in the months ahead would contribute much to general prosperity.

Unemployment Problems

(Continued from page 2)

August, 1957, to September, 1958. However, the continuation of this advance is no longer assured. State and local government units have pushed their programs vigorously and in many cases are approaching the limits of financing. President Eisenhower's directive calls for 2 percent reductions in employment by federal agencies. Workers are not to be fired or laid off, but the working staff is to be reduced by attrition, and in the end the result is likely to be the same. Actions of this kind are hardly consistent with the government's responsibility under the Employment Act of 1946.

The idea that true prosperity is possible without full employment has little validity. Workers who should be earning full wages cannot contribute to progress when on relief. Unless something more than promises of prosperity can be undertaken, the seasonally adjusted rate of unemployment will tend to rise from the 7 percent still prevailing. The situation calls for thinking straight and dealing frankly with our unemployment problems. VLB

Recent Economic Changes

(Continued from page 5)

September, 1957. This represented the first month that earnings have topped the year earlier period since July, 1957, according to the latest report by the Association of American Railroads. The September net of $73 million was also the highest since October of last year, when it was $99.6 million.

For the first nine months of this year, net income was estimated at $354 million compared with $540 million for the same period in 1957.

The report also stated that operating revenues in the first nine months of 1958 totaled only slightly over $7 billion, a decrease of 11.5 percent from $7.9 billion in the like period last year. Operating expenses fell 9.3 percent, from $6.2 billion last year to $5.6 billion in 1958.

For the twelve-month period ending September, 1958, the rate of return for the railroads was 2.58 percent compared with 3.64 percent for the twelve months ending September, 1957.

Cash Dividend Payments

Cash dividend payments by corporations issuing public reports totaled $1,638 million in September, according to the latest Commerce Department report. Last year corporations paid out $1,672 million for the same month.

The decrease, amounting to about 2 percent, was concentrated mainly in mining and in the metal manufacturing industries. Most other manufacturing industries, as well as the railroads, also reported somewhat lower payments this year. Partly offsetting these reductions were higher payments by oil refining, public utility, and finance companies.

Farm Prices

The index of prices received by farmers fell in October to 252 percent of the 1910-14 average. This was 2 percent (6 points) below the previous month but 5 percent (11 points) above October, 1957. Most of the decline resulted from sharp price reductions for citrus fruit as new crops moved to market in large volume. Lower prices for hogs, cotton, eggs, and corn also contributed to the reduction in the October index.

Higher farm wages were the major factor in pushing the index of prices paid by farmers to a record 307 in mid-October. The parity ratio, which is the ratio between prices received and prices paid by farmers, fell from 85 in September to 82 last month, the lowest since January of this year.

Employment

Employment rose 677,000 between mid-September and mid-October, but was still about 699,000 below last year's level, according to the latest Census Bureau figures. Most of the improvement resulted from a pickup in factory jobs. In addition some seasonal job gains were reported.

Unemployment in October fell 306,000 to 3.8 million. The improvement in both the employment and unemployment figures was more than seasonal.

Census data, in thousands of workers, are as follows:

	Oct. 1958	*Sept. 1958*	*Oct. 1957*
Civilian labor force	69,111	68,740	68,513
Employment	65,306	64,629	66,005
Agricultural	6,404	6,191	6,837
Nonagricultural	58,902	58,438	59,168
Unemployment	3,805	4,111	2,508
Seasonally adjusted rate	7.1	7.2	4.7

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

War on Pseudo-Bargain Prices

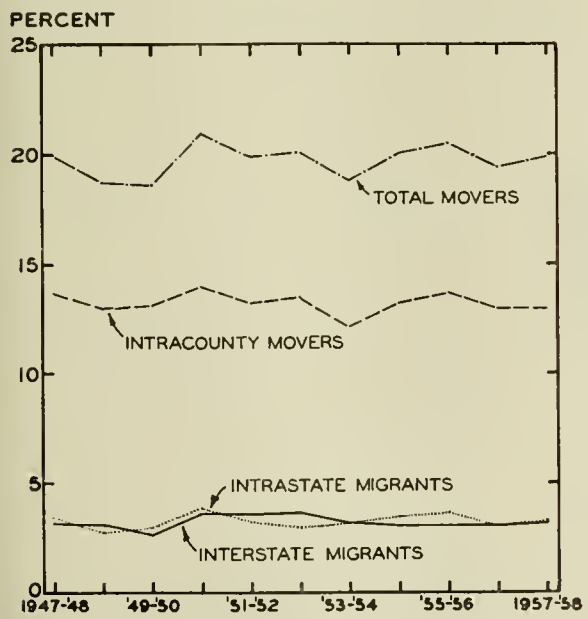
The Federal Trade Commission has just released a guidebook entitled *Guides Against Deceptive Pricing*. This booklet is technically for use by the FTC's staff, but it is also intended for distribution and use by Better Business Bureaus throughout the country. The guidebook defines no new illegal practices but sets forth the principles the commission uses in deciding whether a price advertisement is false. It spotlights advertising evils that have misled the public and often injured merchants who advertise prices honestly. This is one of many things which the commission is doing to curb what it calls "trickery in price advertising." The main target is retailer advertising that leads the consumer to believe a regular price on an article is really a bargain sale price.

Mobility of Population

As a result of an annual mobility sample survey conducted by the Bureau of the Census, it is estimated that about 33 million persons, or 19.8 percent of the civilian population one year old and over, moved within the United States between March, 1957, and March, 1958. There were 79.7 percent who were living in the same house and 0.5 percent who had moved from outside the continental United States. Of those who moved within the United States, 67 percent changed residences within the same county and the remainder was about equally divided between those who moved across county lines within the same state and those who moved between states. The accompanying chart shows that the percentage of the civilian population moving intracounty, intrastate, and interstate has fluctuated very little in the past ten years.

The population in the West continued to be the most mobile, with 26.7 percent moving to different houses between March, 1957, and March, 1958. This compares with 22.8 percent in the South, 19.2 percent in the North Central area, and 14.3 percent in the Northeast. Data on the redistribution of the population through interregional migration indicate that over the last five years there has been a net migration to the West and a net migration from the South, with only small net shifts from the two northern regions.

MOVERS BY TYPE OF MOBILITY



Source: Bureau of the Census, *Current Population Reports, Population Characteristics,* October 13, 1958, p. 1.

Voting in Off-Year Elections

According to estimates released by the Bureau of the Census, about 104.6 million civilians were old enough to vote in the November, 1958, general election. Of this number, about 46 million cast their votes for United States representatives, or approximately 44 percent of those of voting age. This preliminary figure, which marks an off-year record, compares with 58.9 million votes cast for United States representatives in the 1956 presidential election year. The proportion of the civilian population of voting age represented by the total votes cast for United States representatives in off-year elections since 1922 has ranged from a low of 30.1 percent in 1926 to a high of 44.1 percent in 1938.

Faster, Better Printing

The DuPont Company has recently developed a new process of making plastic printing plates. Although the new plate material has not been made available commercially, its introduction will reduce by more than four hours the average time necessary to make electrotype plates. In addition, the process offers other advantages, such as the elimination of several preliminary steps and the reduction in the number of men needed for the job.

The process, which requires a sensitized plastic plate called photopolymer, incorporates the same principle as is currently used in metal engraving, that is, the etching away of the surface which will not be used. Under ultraviolet light the plate is exposed to a negative of the material to be printed. Where light passes through the negative, the plastic hardens into printing surfaces. A wash of sodium hydroxide then eats away the soft, unexposed plastic and leaves the hard areas in relief. Tests of the usefulness and durability of this new plate have demonstrated that it will stand up under as many as 1.2 million impressions.

Piggyback Trailers for Fresh Produce

The Agricultural Marketing Service has recently studied load patterns of "piggyback" trailers hauled on railroad flat cars. Even though this new method of transporting fruits and vegetables to market has reduced transportation rates, it was found that in order to take successful advantage of this newest method of transportation, growers and shippers must be careful how they load the trailers. The researchers found that solid loads usually do not cool well, and the temperature in the center sometimes actually rises. Large commodities, such as cabbages or melons, packed in well-ventilated, rigid containers, are a possible exception. In loads with only partially open circulation of refrigerated air, the fruits and vegetables cooled fairly well; but spaced loads fully subject to the air circulation provided effective cooling of the entire load.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in September increased from the preceding month. With the exception of seasonally adjusted department store sales in Chicago, petroleum production, and farm prices, all indicators advanced (see page 4). Construction contracts awarded rose 21 percent, bank debits for selected Illinois cities 11 percent, and coal production 9 percent.

Comparisons with September, 1957, showed increased activity in all indicators, with the exception of manufacturing employment, coal production, and department store sales, which experienced declines of 11 percent, 5 percent, and 4 percent respectively. Construction contracts awarded gained 17 percent, life insurance sales rose 8 percent, and bank debits advanced 5 percent.

Total Net Farm Income

In 1957 Illinois farmers had a total net farm income per farm amounting to $3,843, compared with $4,083 in 1956. This represents a decline of 6 percent. During the last nine years, Illinois farmers have received an average total net farm income per farm of $3,848, ranging from a high of $4,536 in 1951 to a low of $3,142 in 1949.

Illinois ranked tenth in the nation in total net farm income in 1957, whereas in 1956 it was seventh. Arizona was high with $13,225 per farm; West Virginia was low with $813 per farm (see chart). The United States average total net farm income was $2,388 per farm in 1957. This compares favorably with an average of $2,341 per farm in 1956 and was only $112 below the nine-year average of $2,500 per farm.

Steel Plant Expansion

The International Harvester Company has announced plans to expand its Wisconsin Steel Works in Chicago with the addition of a merchant mill which will turn out various stock steel items, such as small rounds, squares, flats, channels, and angles. It is estimated that the total cost will be approximately $12 million. The new mill will have a capacity of 20,000 tons monthly, raising the entire plant's merchant mill capacity to about 62,000 tons monthly, an increase of 48 percent in finishing capacity. About half the output of this plant is utilized by International Harvester Company for its own products, the other half being sold on the open market. This expansion project is expected to take approximately two and one-half years to complete.

One-Man Farms

In order to determine how much land and livestock one man can handle, the Illinois Farm Bureau Farm Management Service conducted a study of 1,297 tenant farmers in Illinois in 1957. They found that on rented grain farms an average one-man operation amounted to approximately 225 acres of land with 200 tillable acres and 125 acres in corn and soybeans. In addition these operators milked three cows, fed fourteen animal units of beef cattle or sheep (an animal unit is 1,000 pounds liveweight), and raised sixteen litters of pigs. On a livestock lease, the average one-man farm had approximately 205 acres of land, 180 tillable acres, and 95 acres in corn and soybeans. Livestock averaged 5 dairy cows, 30 animal units of beef cattle and sheep, and 32 litters of pigs.

Wood Chip Plant

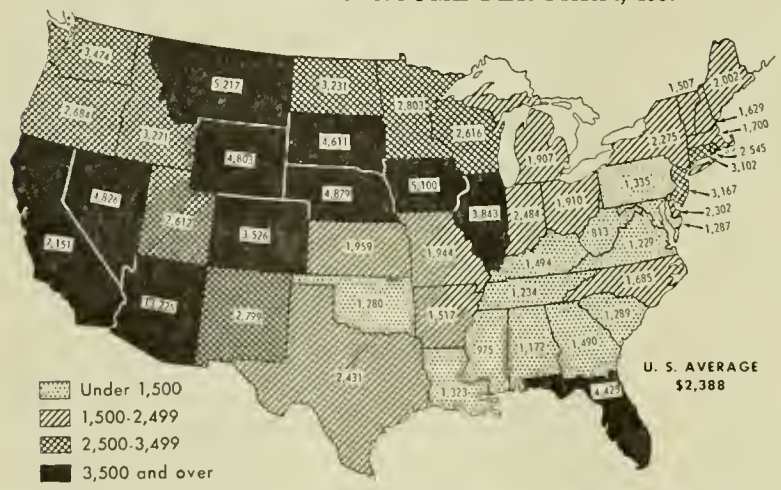
A new wood chip plant, which is expected to be completed by the first of next year, is being constructed at Tamms, Illinois. The purpose of this plant is to convert thousands of cords of low-grade timber to chips for use in making packaging material. This operation provides a profitable market for timber now classed as having little or no value. Furthermore, it permits better management of a timber stand, since the chip plant becomes a buyer for cull trees. The new plant represents a source of raw material competitive with straw for use in making corrugated material. The entire output of the plant, amounting to ten carloads daily, will be taken under contract by the Alton Box Board Company.

Face Lifting Due for Chicago

The Department of City Planning of Chicago has prepared an outline of a capital improvement program requiring the expenditure of approximately $853 million on public improvements in Chicago from 1958 through 1962. About $156 million of the total has already been spent. Of the remainder, $148 million will come from the federal government as aid in building expressways. Other sources of income for these improvements are state motor fuel taxes ($100 million), corporate bonds that are retired by taxes ($187 million), revenue bonds paid for by city revenues ($139 million), and water funds ($155 million).

The plan calls for $360 million, or 42 percent of the total cost, to go for the improvement of streets and highways. Chicago's three airports are to receive $117 million, of which 90 percent will be used to develop O'Hare-Chicago International Airport. Other projects in the plan include extension of water mains, sewer construction, and improvements in public buildings.

TOTAL NET FARM INCOME PER FARM, 1957



Source: U. S. Department of Agriculture, *Farm Income Situation*, September, 1958, p. 18.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$31,243[a]	1,136,765[a]	$497,659[a]		$16,293[a]	$14,677[a]
Percentage change from Aug., 1958	+20.2	−1.0	+0.1	+3	+10.9	+2.3
Percentage change from Sept., 1957	−17.3	−2.4	−9.1	+1	+4.6	+6.0
NORTHERN ILLINOIS						
Chicago	$20,124	843,995	$360,598		$14,901	$12,772
Percentage change from Aug., 1958	+12.2	−0.4	−0.5	+5	+11.4	+3.9
Percentage change from Sept., 1957	−15.6	−3.8	−7.4	+1	+4.5	+4.2
Aurora	$ 868	n.a.	$ 8,062		$ 70	$ 144
Percentage change from Aug., 1958	+159.1		+9.9	−4	+9.4	−6.5
Percentage change from Sept., 1957	−16.5		−4.7	+41	+6.4	+10.2
Elgin	$ 326	n.a.	$ 5,740		$ 44	$ 88
Percentage change from Aug., 1958	+1.2		+7.0	n.a.	+5.3	−28.3
Percentage change from Sept., 1957	+17.7		−8.7		+6.8	+40.9
Joliet	$ 590	n.a.	$ 9,179		$ 79	$ 85
Percentage change from Aug., 1958	−16.9		+0.9	+11	+0.5	−17.5
Percentage change from Sept., 1957	−72.5		−23.9	−1	+3.5	+2.6
Kankakee	$ 333	n.a.	$ 4,472		n.a.	$ 57
Percentage change from Aug., 1958	+94.7		+4.0	n.a.		+10.6
Percentage change from Sept., 1957	+162.2		−17.5			+36.2
Rock Island-Moline	$1,243	25,885	$10,320		$ 103[b]	$ 145
Percentage change from Aug., 1958	+43.2	−5.3	+4.1	n.a.	−0.7	−8.9
Percentage change from Sept., 1957	+88.6	+7.0	−6.0		+5.3	+26.7
Rockford	$1,082	44,429[c]	$14,942		$ 172	$ 206
Percentage change from Aug., 1958	+11.7	+3.9	−2.0	+3	−0.9	−11.7
Percentage change from Sept., 1957	−41.4	−0.0	−22.0	−7	−0.6	+14.7
CENTRAL ILLINOIS						
Bloomington	$ 170	8,233	$ 5,152		$ 71	$ 99
Percentage change from Aug., 1958	−59.2	−9.2	+2.8	n.a.	+3.4	−3.0
Percentage change from Sept., 1957	−43.1	+4.4	−9.9		+11.0	+35.8
Champaign-Urbana	$ 320	12,811	$ 7,172		$ 74	$ 105
Percentage change from Aug., 1958	−39.2	+0.0	+0.7	n.a.	+2.7	−10.5
Percentage change from Sept., 1957	−52.3	+14.5	−8.0		+11.3	+12.6
Danville	$ 302	13,569	$ 5,780		$ 49	$ 66
Percentage change from Aug., 1958	+40.5	−2.9	+4.4	−14	+3.0	−10.6
Percentage change from Sept., 1957	+29.1	+6.9	−12.8	−6	+5.2	+18.7
Decatur	$ 841	35,529	$11,117		$ 122	$ 130
Percentage change from Aug., 1958	+23.0	+0.2	+6.6	+1[c]	+9.3	+9.1
Percentage change from Sept., 1957	−3.6	+4.0	−10.5	+11[c]	+6.0	+33.2
Galesburg	$ 442	9,574	$ 4,389		n.a.	$ 47
Percentage change from Aug., 1958	−23.3	+1.8	+2.6	n.a.		+12.6
Percentage change from Sept., 1957	−30.1	+5.8	+1.9			+26.6
Peoria	$3,372	53,973[c]	$15,688		$ 236	$ 261
Percentage change from Aug., 1958	+834.1	−0.8	+6.8	−5[c]	+12.5	+0.1
Percentage change from Sept., 1957	+144.7	−5.4	−15.7	−1[c]	+2.9	+13.6
Quincy	$ 236	10,318[c]	$ 4,738		$ 45	$ 70
Percentage change from Aug., 1958	+61.6	−8.3	+5.7	+4	+10.5	−4.6
Percentage change from Sept., 1957	−62.2	−20.1	−10.3	+2	+6.7	+14.1
Springfield	$ 521	37,658[c]	$13,026		$ 128	$ 255
Percentage change from Aug., 1958	−45.7	−13.1	+8.1	+1[c]	+8.0	−9.7
Percentage change from Sept., 1957	−80.1	+9.2	−15.2	0[c]	+3.1	+19.5
SOUTHERN ILLINOIS						
East St. Louis	$ 216	15,203	$ 8,468		$ 155	$ 67
Percentage change from Aug., 1958	−55.3	+3.0	+1.6	n.a.	+11.0	−6.3
Percentage change from Sept., 1957	+27.1	+3.5	−12.2		+7.7	+28.3
Alton	$ 98	14,518	$ 4,409		$ 43	$ 34
Percentage change from Aug., 1958	−52.2	−3.4	+4.0	n.a.	+3.0	−19.8
Percentage change from Sept., 1957	−41.3	−2.4	−13.0		+6.3	+23.6
Belleville	$ 159	11,070	$ 4,408		n.a.	$ 45
Percentage change from Aug., 1958	+45.9	−5.0	+2.2	n.a.		−11.4
Percentage change from Sept., 1957	+7.4	+4.0	−10.0			+31.7

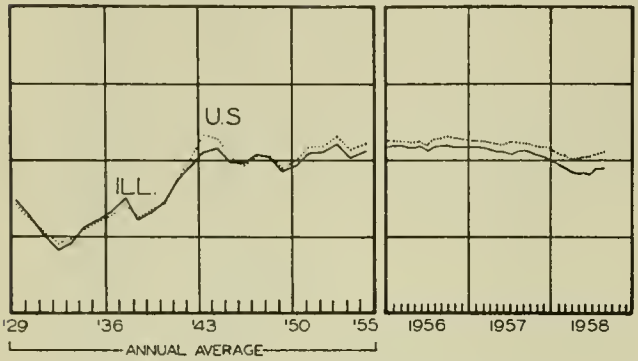
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for August, 1958. Comparisons relate to July, 1958, and August, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending September 19, 1958, and September 20, 1957.

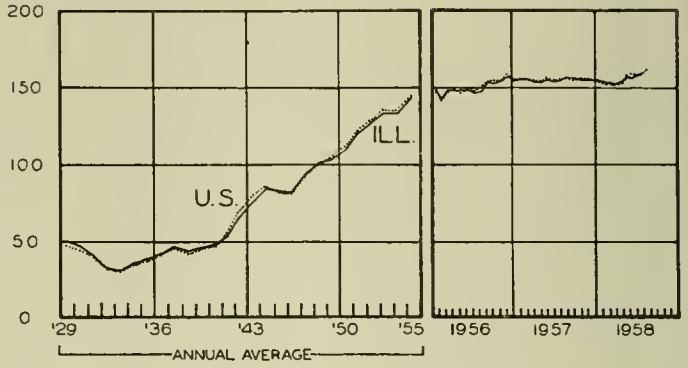
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

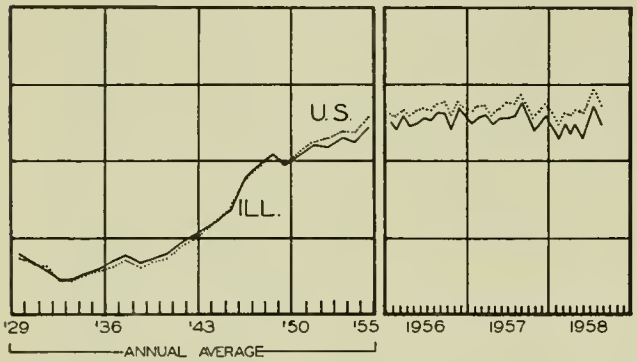
EMPLOYMENT MANUFACTURING



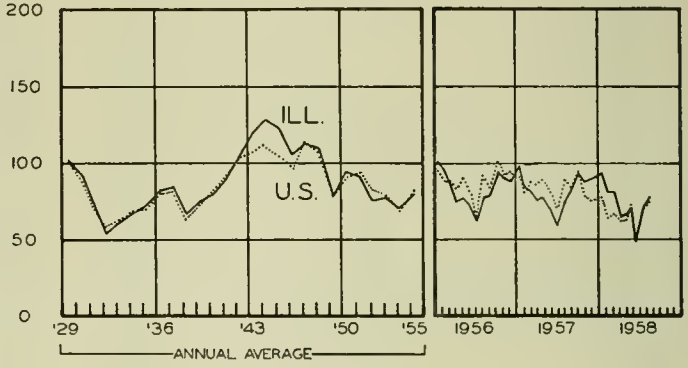
AVERAGE WEEKLY EARNINGS - MANUFACTURING



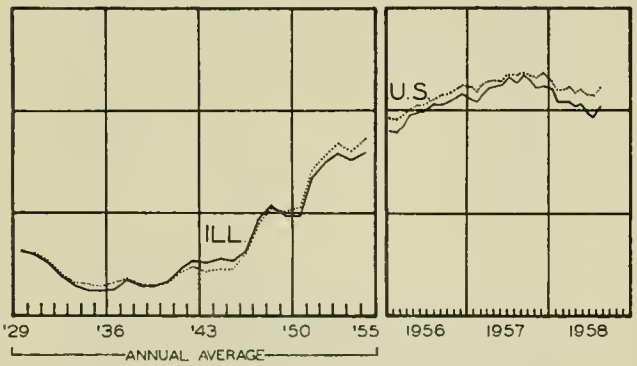
DEPARTMENT STORE SALES



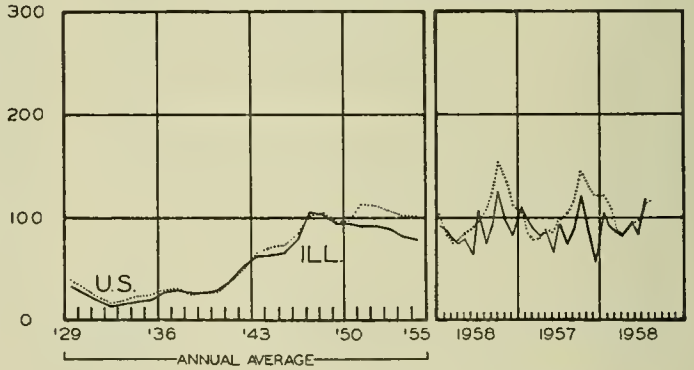
COAL PRODUCTION



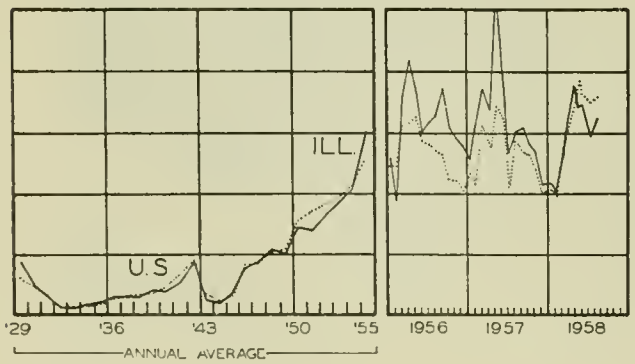
BUSINESS LOANS



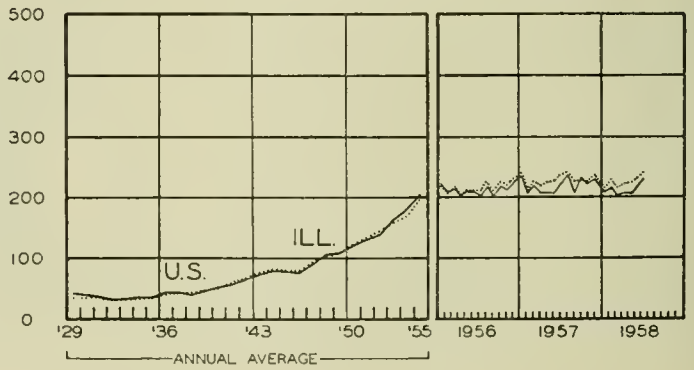
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN NOVEMBER

The business recovery showed further progress in November. The index of industrial production, which had gained only 1 percentage point in October, moved up about 3 points to 141 (1947-49 = 100) as auto output expanded. Preliminary estimates placed department store sales 36 percent above the 1947-49 average on a seasonally adjusted basis, 1 point over the two preceding months and 3 points over November, 1957. Heavy construction awards, which ran above both 1956 and 1957 contracts in the summer months, have been 5 percent or more below the corresponding 1957 period in the last two months. On the other hand, total construction outlays have held up well. Lumber output in November was about 10 percent higher than the 1957 month and close to the 1956 volume.

Steel production averaged about 2 million tons a week in November, about the same as last month. Outputs of electric power, bituminous coal, petroleum, and paperboard, among the weekly indicators, held close to their respective October levels. Freight carloadings showed some improvement, after allowance for seasonal factors.

Business Spending Down

Business spending on new plant and equipment in the third quarter of 1958 slipped to a seasonally adjusted annual rate of $29.6 billion, $710 million below the second quarter rate and $8.1 billion below last year's third quarter rate. Spending by manufacturers fell by nearly the whole amount of the decline from the second quarter, with reductions of $410 million by durable goods and $260 million by nondurable goods producers. Smaller decreases occurred in mining, railroads, and other transportation. Small gains were registered by public utilities and by commercial and other enterprises.

The third quarter rate was $710 million under the rate anticipated in a survey made three months ago. The earlier estimate for the fourth quarter has been reduced $1 billion to $29.9 billion and first quarter, 1959, outlays are estimated at $30.5 billion. Although these last two estimates would indicate that an upturn in business spending is under way, it should be noted that anticipations have consistently exceeded actual outlays in recent quarters.

Auto Production Jumps

Slightly more than 514,000 passenger cars were produced in November, an output nearly double that of October and the highest for any month this year. The total for the month was still 11 percent behind November, 1957, but this was the best year-to-year comparison thus far in 1958.

Sales in November were reported at about 370,000, resulting in the highest daily average of any month this year and only 14 percent below that for the corresponding period last year. Continuing shortages in some lines may have held down sales in the first part of the month, but it seemed likely that well over 100,000 cars were added to dealers' stocks by the end of the month, bringing the total to about half a million.

Construction Stays High

The value of new construction put in place amounted to $4.4 billion in November, down a less-than-seasonal $300 million from October and still $200 million above November, 1957. It raised outlays for the first eleven months of this year to nearly $45 billion, an increase of $600 million over the corresponding period last year.

Gains in housing and most types of nonresidential construction, offsetting the sharp decline in industrial building, pulled private spending for the first eleven months within $200 million of the $31.2 billion laid out in the same period of 1957. Public construction, amounting to nearly $14 billion through November, was $800 million ahead of last year at the same time, with public housing and highways still supplying the main strength.

Sales Up, Inventories Down

Sales by manufacturers and distributors continued to expand in October, the seasonally adjusted total reaching $55.7 billion for a gain of $900 million over September and $400 million over October, 1957. Some $500 million of the increase during the month went to manufacturers and more than half of their gain was in durable goods sales. Retailers' sales advanced $400 million, bringing their adjusted total to $17.0 billion, with three-fourths of the rise coming in durables.

Business inventories in October were reduced another $200 million to $84.8 billion, after allowance for seasonal influences, as a result of further reductions of stocks in the hands of auto dealers. Manufacturers' stocks at $49.3 billion held steady for the first time since August, 1957, when they reached an adjusted high of $54.2 billion.

New orders received by manufacturers rose to $27.8 billion in October on an adjusted basis, $800 million over September. The backlog of unfilled orders dropped $300 million to $45.9 billion.

IMPACT OF THE FEDERAL DEFICIT · · · By S. B. Chase, Jr. · · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Effects of Automatic Stabilizers

There is fairly widespread acceptance of the idea that the recession of 1958 was ended by the action of the "built-in" or "automatic" stabilizers, which are supposed to offset or compensate for cyclical fluctuations. This result is often held to demonstrate the "lesson" that these stabilizers will always be "successful in preventing deflation." Since the facts do not really justify this view, the whole proposition stands as another aspect of the popular detachment from rationality that was described here two months ago as a "bogey of inflation."

Practically everything that supported the economy against the decline earlier this year has been unthinkingly referred to as a "stabilizer." In many cases there is neither justification for the use of this label nor any reasonable expectation that the items in question could again put in a timely appearance to counteract future declines.

Monetary policy is often included in these discussions, but its role is complicated and cannot be discussed here. Since such action is subject to discretion, it need not be considered automatic in character. However, it may be assumed that the monetary authorities will act when the situation seems to call for stabilization. What effects last winter's easy money policy (see article, p. 6) may have had in raising the level of activity is not easy to determine. All segments of the economy, including the stock market, were affected by other influences also, and usually these other influences were more direct, so that the contribution of monetary action remains in doubt.

Government Purchases in the Recession

In the sphere of fiscal policy, it is possible by adding together all items of increase in government spending and of tax reduction to build up a total almost as large as the $20 billion decline in gross product from the third quarter of 1957 to the first quarter of 1958. This not only overlooks the fact that gross national product already includes government purchases of goods and services but also tends to misrepresent the effects of other changes in the government accounts.

The largest increases in government purchases of goods and services were made by state and local government units. These were largely in line with the advances of recent years, and like past boom-time demands for public facilities of all kinds, they typically lag somewhat behind the cycle in private activity. No doubt some 1958 projects were of an anti-recessionary character. The upsurge in highway building, for example, was stimulated by federal funds made specially available. But this stimulus was specific to the situation and is properly a federal rather than a state and local contribution.

Various other federal programs have also been expanded — notably defense, housing, farm, transfer payments, and pay increases for federal employees. With the exception of transfer payments, none of these belongs in the category of automatic stabilizers:

1. Increases in defense spending began with the sputniks; it took several months to reverse the downward movement under way last fall, and subsequently, the disturbances in Lebanon and Quemoy added fuel to the fire. Military considerations were decisive in this area.

2. Housing was stimulated by actions taken to make terms easier to home buyers and to make funds available for mortgage financing. The actions taken in this area also were *ad hoc* and could not be automatically repeated on other occasions.

3. Farm price supports are more generally thought of as part of the regular stabilizing mechanism. This program was originally conceived as an anti-depression measure to protect farmers against falling nonfarm income. This year, by the third quarter, personal income was back up to record highs. The increases in government purchases of farm commodities were due, therefore, not to falling income but to record production.

4. The pay increases for government employees were provided by special legislation. They are primarily the result of well-known lags in bringing government compensation into line with rising incomes in the private economy.

Tax Changes Not Important

The tax reductions that occur with declining output and incomes are also regarded as an important part of the built-in stabilizers. The total tax payable by business and individuals declined by an annual rate of $7 billion from the third quarter of 1957 to the first quarter of 1958 and then recovered about 80 percent of this loss by the third quarter. The decline is seemingly impressive, but the favorable impression disappears on analysis.

State and local taxes contributed nothing to recovery, since they continued to rise during the recession. They were at a rate about a billion higher in the recent third quarter than a year earlier.

Personal income taxes underwent only minor changes, since income remained fairly steady. A decline of about $1 billion was followed by an almost equal recovery, so that the stimulating effect of the reduction had been washed out by the third quarter.

The most important "cushion" for personal income was the sharp decline in corporate profits. A drop of $12 billion in the reported annual rate of profits absorbed more than half of the extreme decline in gross product. The tax bill on corporate income dropped by roughly half as much, or about $6 billion. Dividend payments dipped moderately in the final quarter of 1957 and then regained most of the loss. Hence, the decline in corporate profits was allocated half to corporate saving and half to federal profits taxes.

It is hard to see any important positive contribution from this loss of taxes. Ordinarily tax reductions would tend to increase business spending. In this instance,

(Continued on page 8)

MILK AND DAIRY PRODUCTS

Milk production in this country was started in 1607 when milk cows were brought here by the Jamestown settlers. The cow, unknown as a domestic animal to the American Indian, was of singular importance to early settlers because it provided a dependable, as well as a mobile, source of food.

From ancient times until the nineteenth century, the character of milk production and use changed little. Milk cows generally were distributed according to human population and typically each family's dairy provisions were supplied by a single cow. But the mushrooming growth of large cities in the early nineteenth century separated urban residents from the farms, and the city dwellers could no longer be self-sufficient in milk production. Dairy farms then developed to meet the growing demand for milk products.

Production of butter and cheese had become commercialized in some areas by the time of the Civil War. Cheese factories had appeared as early as 1831 because specialized manufacturers could make uniform cheese more efficiently than the farmer. Butter factories, however, were not established until about thirty years later because farmers found that butter-making — unlike cheese-making — imposed little inconvenience, inasmuch as it did not require immediate and daily attention.

By the close of the century the dairy industry was becoming more diversified as the number of products with commercial potential increased. For example, ice cream, although long known as a dessert, did not become a widespread commercial product until 1890, after the introduction of the mechanical refrigerator. Evaporated milk was produced commercially in 1885 in the United States, and milk was first dried successfully in 1901. Since 1900, milk products have been further developed for a wide variety of industrial uses, such as paint, glue, plastics, dyes, explosives, textiles, and pharmaceuticals.

Dairy Products Today

Milk products are the most popular food in the United States today, accounting for more than 17 percent of the dollar value of all foods consumed. Total milk production, which has been rising steadily during this century, reached a new record of 127 billion pounds in 1957. Moreover, the Department of Agriculture estimates that this total will be exceeded in 1958.

Although milk production has been climbing, the number of milk cows declined 19 percent to 20.6 million between 1944 and 1957. Improved breeding, dairy technology, and management, resulting in increased productivity per cow, have been the chief sources of continued production gains. The pattern of the past two decades has been toward fewer farms with milk cows but with larger herds per farm.

Milk is most commonly used in its fresh form. More than 47 percent of the total supply marketed last year consisted of fresh fluid milk or cream. Butter accounted for 25 percent; cheese, 11 percent; ice cream and other frozen products, 7 percent; evaporated and condensed milk, 5 percent; and dry whole milk, 1 percent. The remaining 4 percent was used for factory products and for feeding calves.

Nationally, there are more than 11,500 establishments engaged in the manufacture of all types of milk food products. The fresh milk dairies comprise about three-fifths of this total. The Midwest is easily the nation's leading region in the manufacture of all types of dairy products. Five states (Illinois, Indiana, Ohio, Michigan, and Wisconsin), with 25 percent of the milk cow population, account for 59 percent of the nation's total production of American cheese, 39 percent of the evaporated milk, 30 percent of the cottage cheese, and 28 percent of the creamery butter.

The Industry in Illinois

Although Illinois accounts for only 4 percent of the country's milk production, it has nearly 500 plants that make it a major manufacturer of certain milk products, such as cheese, ice cream, ice milk, and dry milk. Last year approximately 5.2 million pounds of milk were produced on the State's 13,000 dairy farms. Nearly one-half of the total production came from the 23 counties in the northern section of the State.

Illinois has three major fresh milk markets — the Chicago, Peoria, and St. Louis areas. The fresh milk supply is usually located near the centers of consumption in order to reduce transportation costs and perishability. Chicago and Peoria draw their supply from the nearby heavy-producing areas of northern Illinois. The St. Louis area is supplied by a number of important Illinois counties, including Clinton, Randolph, and Madison. Cook County is the largest center for the manufacture of all kinds of dairy products in the State, having more than a third of the total dairy products plants.

Illinois has continued to play an increasingly larger role in cheese production. Output of cheese jumped from 5 million pounds in 1919 to about 124 million pounds in 1957. Production of cottage cheese, a nutritious by-product, vaulted spectacularly between 1944 and 1957, experiencing a 250 percent increase to 31 million pounds.

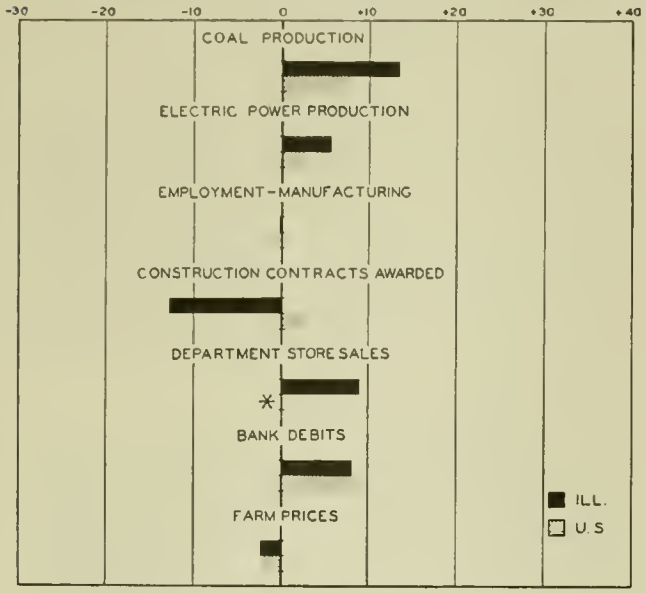
Ice cream manufacture in Illinois rose from 28 million gallons in 1945 to 33 million gallons in 1957. This increase has been attributed chiefly to population growth. Production of ice milk, a product made popular by its low price and availability at roadside stands, has increased nationally more than tenfold in the past decade. Illinois, with an annual output of more than 7 million gallons, is second only to California in production.

The trend of the past three decades indicates that dairy farming is becoming secondary to beef farming in Illinois. The proportion of dairy cows to total cattle numbers has dropped from 50 percent in 1930 to about 20 percent today. This shift in emphasis makes it appear that the State has reached a fixed level in total milk production and in processing plants. The milk cow population and the number of dairy farms are expected to decline further, but technology should nevertheless keep milk production near or slightly above the ten-year average of 5.1 million pounds.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1958, to October, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	October 1958 (1947-49 =100)	Percentage change from Sept. 1958	Percentage change from Oct. 1957
Electric power[1]	230.9	+ 5.7	− 0.5
Coal production[2]	88.9	+13.5	− 5.0
Employment—manufacturing[3]	94.8	− 0.2	−10.1
Weekly earnings—manufacturing[3]	162.1[a]	+ 2.7	+ 3.2
Dept. store sales in Chicago[4]	119.0[b]	0.0	+ 2.6
Consumer prices in Chicago[5]	127.3	− 0.1	+ 2.1
Construction contracts awarded[6]	313.8	−12.8	+11.1
Bank debits[7]	201.6	+ 8.2	+ 5.8
Farm prices[8]	85.0	− 2.3	+ 4.9
Life insurance sales (ordinary)[9]	308.8	+ 9.5	+ 7.0
Petroleum production[10]	127.8	+ 1.6	− 5.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] September data; comparisons relate to August, 1958, and September, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1958	Percentage change from Sept. 1958	Percentage change from Oct. 1957
	Annual rate in billion $		
Personal income[1]	357.5[a]	− 0.1	+ 2.0
Manufacturing[1]			
Sales	326.4[a]	+ 1.5	− 2.9
Inventories	49.3[a, b]	0.0	− 8.9
New construction activity[1]			
Private residential	20.7	− 1.0	+ 8.7
Private nonresidential	17.7	− 1.0	− 5.5
Total public	18.8	− 2.4	+ 6.9
Foreign trade[1]			
Merchandise exports	16.3[c]	− 2.5	−11.6
Merchandise imports	13.4[c]	+17.2	+10.6
Excess of exports	2.9[c]	−44.6	−53.8
Consumer credit outstanding[2]			
Total credit	43.2[b]	− 0.2	+ 0.3
Installment credit	33.1[b]	− 0.3	− 0.6
Business loans[2]	33.3[b]	+ 0.3	− 4.5
Cash farm income[3]	39.4[c]	+14.8	+12.0
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	138[a]	+ 0.7	− 2.8
Durable manufactures	145[a]	0.0	− 7.1
Nondurable manufactures	134[a]	+ 0.8	+ 3.1
Minerals	121[a]	− 0.8	− 4.7
Manufacturing employment[4]			
Production workers	94	− 1.1	− 8.8
Factory worker earnings[4]			
Average hours worked	99	− 0.8	+ 0.3
Average hourly earnings	160	− 0.5	+ 1.9
Average weekly earnings	159	− 1.2	+ 2.2
Construction contracts awarded[5]	334	+ 2.9	+26.6
Department store sales[2]	135[a]	0.0	+ 4.7
Consumer price index[4]	124	0.0	+ 2.1
Wholesale prices[4]			
All commodities	119	− 0.1	+ 1.0
Farm products	92	− 0.9	+ 0.9
Foods	110	− 1.1	+ 4.2
Other	126	+ 0.2	+ 0.5
Farm prices[3]			
Received by farmers	93	− 2.1	+ 4.5
Paid by farmers	123	+ 0.8	+ 4.2
Parity ratio	82[d]	− 3.5	+ 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for September, 1958; comparisons relate to August, 1958, and September, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Nov. 29	Nov. 22	Nov. 15	Nov. 8	Nov. 1	Nov. 30
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,508	1,488	1,467	1,433	1,423	1,637
Electric power by utilities...mil. of kw-hr.	12,274	12,579	12,378	12,311	12,330	11,613
Motor vehicles (Wards)...number in thous.	142	164	141	150	117	132
Petroleum (daily avg.)...thous. bbl.	6,983	6,975	6,968	7,003	6,911	6,829
Steel...1947-49=100	115	116	117	117	117	107
Freight carloadings...thous. of cars	539	619	644	658	674	554
Department store sales...1947-49=100	171	169	157	148	136	170
Commodity prices, wholesale:						
All commodities...1947-49=100	119.1	119.1	119.2	118.7	118.6	118.1[a]
Other than farm products and foods...1947-49=100	126.9	126.8	126.8	126.2	126.1	125.9[a]
22 commodities...1947-49=100	87.9	87.8	88.3	87.6	86.8	84.4
Finance:						
Business loans...mil. of dol.	30,599	30,608	30,602	30,444	30,337	31,527
Failures, industrial and commercial...number	244	260	274	331	299	235

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1957.

RECENT ECONOMIC CHANGES

Wholesale Prices

Wholesale prices, on the average, continued substantially level, falling less than one-tenth of 1 percent during October to 119.0 percent of the 1947-49 average. The slight decline reflected lower prices for farm products and processed foods which were only partially offset by small advances in industrial prices. Since the spring of 1958, the comprehensive index of wholesale prices has held fairly steady.

The recent increases in the prices of commodities other than farm products and foods followed a period of more than a year in which there was little change in this broad group. Before that, industrial prices were the main factor in the general upward trend in the wholesale price index which began in the summer of 1955 (see chart).

During October the average prices of farm products fell by 0.9 percent and processed foods by 1.1 percent. The decreases were due primarily to price declines for livestock, meats, poultry, and eggs.

Building Contract Awards

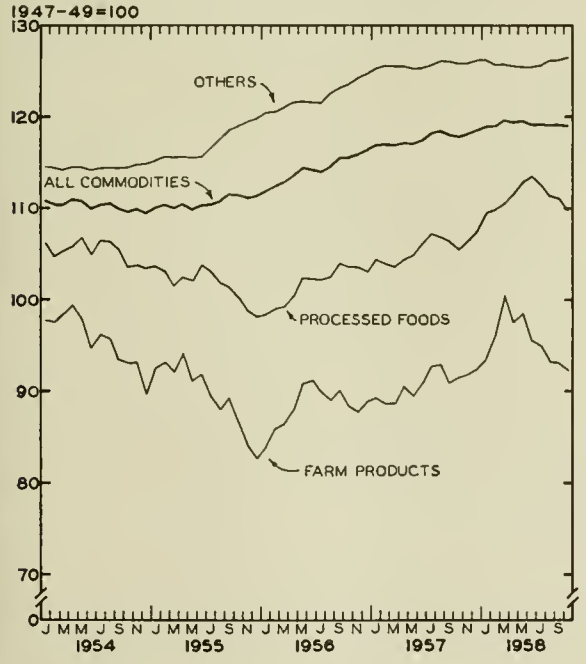
The F. W. Dodge Corporation reported that contracts awarded for future construction rose in October to $3.3 billion, a record for the month and 27 percent above the same month last year.

The largest dollar advance was in housing, which has shown increasing strength in recent months. October contracts covered 123,553 units, well above the 114,642 in September and 113,500 in August. The dollar value amounted to $1.6 billion, 37 percent above October, 1957.

Both other major categories of construction also rose above year-earlier levels. Nonresidential building awards went up 5 percent to $955 million, with increases in commercial, public, and religious buildings offsetting the continued year-long decline in manufacturing facilities. For the year to date, awards for manufacturing buildings are off 35 percent to $1.2 billion. Heavy engineering awards rose 41 percent to $759 million, with highways and electric power projects providing most of the increase.

The October contracts brought the total for the year to $30.3 billion, 9 percent above the level of the first ten months of 1957.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

Retail Sales

Sales of retail establishments in October increased by slightly more than a billion dollars (unadjusted) to a total of $17.4 billion. After adjustment for seasonal factors, however, sales in October totaled $17.0 billion, compared with $16.6 billion in September and $16.9 billion in October, 1957.

Most of the $400 million advance in total sales during the month was accounted for by an increase in the sales of durable goods stores from $5.1 billion in September to $5.4 billion in October. Nondurable goods stores showed a smaller gain of $100 million, reaching an October total of $11.6 billion.

For the month, all major groups of retail stores showed increases over September sales. However, the furniture and appliance group, along with the automotive group, had sales below those of October, 1957.

Industrial Production

The Federal Reserve Board reported that its industrial production index moved up 1 percentage point in October to a seasonally adjusted 138 percent of the 1947-49 average. The latest figure represented a recovery of more than half of the recession decline from the 1957 summer high of 145 percent to the low of 126 percent in April, 1958. However, this year's October level was still 4 points under the 142 registered in the same month last year.

As the result of work stoppages in the auto industry and a strike in the glass industry, durable goods production remained unchanged in October at 145, compared with 156 in October, 1957. Auto production did show an increase from the unusually low September level but was still sluggish. At an adjusted figure of 67, the index for the auto industry was well below the 143 of October, 1957. Nondurable goods output continued upward and reached a record rate of 134.

Employment

Unemployment rose much less than normal in November, reducing the seasonally adjusted rate to 5.9 percent of the labor force, a ten-month low. The reason for the decrease was that the number of persons withdrawing from the labor force in November exceeded new jobseekers looking for holiday work. Normally, the reverse is true.

Most of the decline in the labor force, caused by the usual curtailment of farm work, was reflected in the 653,000 drop in total employment. However, the number of workers on factory payrolls rose contraseasonally by about 155,000 to 15.7 million, as major strikes in auto plants and related work stoppages in the metals and machinery industries were ended.

Census data, in thousands of workers, are as follows:

	Nov. 1958	*Oct. 1958*	*Nov. 1957*
Civilian labor force	68,485	69,111	68,061
Employment	64,653	65,306	64,873
Agricultural	5,695	6,404	5,817
Nonagricultural	58,958	58,902	59,057
Unemployment	3,833	3,805	3,188
Seasonally adjusted rate	5.9	7.1	4.9

IMPACT OF THE FEDERAL DEFICIT

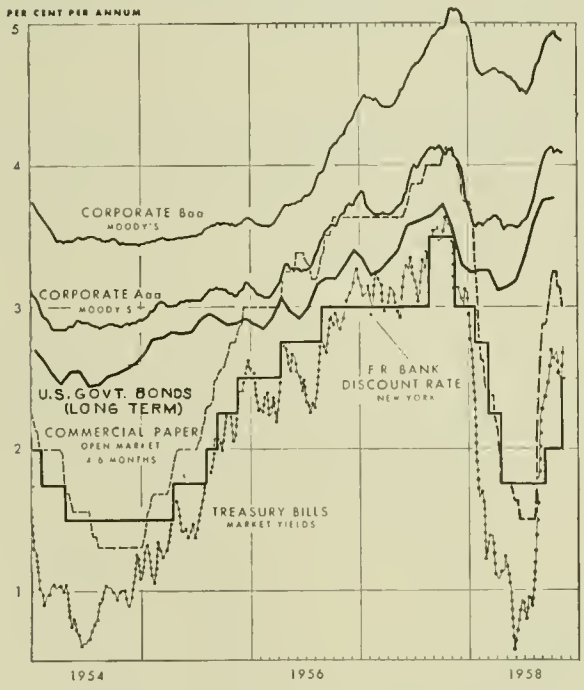
S. B. CHASE, JR., Instructor in Economics

During the extended hearings of the Senate Finance Committee on the nation's monetary and credit policy in the summer of 1957, former Treasury Secretary George M. Humphrey was moved to characterize the government's fiscal situation as "a mess." The problems revolved mainly around the management of the $275 billion federal debt, one of the most persistent causes of Treasury headaches being the necessity for continual refunding of short-term issues. Weekly trips to the money market for nearly $1.75 billion to refund maturing 91-day Treasury bills, interspersed with larger refundings of notes and certificates to the tune of $53 billion in 1957 were becoming increasingly expensive as interest rates rose in response to the tight money policy being pursued by the Federal Reserve. The bill rate reached a 24-year high of 3.64 percent in October, up from an average of 1.73 percent during 1955 (see chart).

By the spring of 1958 Humphrey's successor, Secretary Anderson, was confronted with a somewhat different debt problem. The recession had brought with it a reduction in expected government revenues, which meant a substantial increase in government borrowing would have to take place. Though the Federal Reserve was, at the time, following a policy of relatively easy money, any hopes Anderson had of financing a substantial part of the deficit at low interest rates have since been dashed. From a low of .58 percent in May, the Treasury bill rate has advanced to over 2.5 percent as the Federal Reserve has again tightened the market in the hope of stabilizing the price level.

Although the Treasury currently plans to cover a part of its predicted cash deficit of $13 billion for fiscal 1959 by drawing down its cash balances, it will have to raise some $7 billion by "new money" issues during the year. In the meantime, nearly 40 percent of the marketable issues outstanding mature within one year, and about $52 billion of savings bonds, redeemable on demand, pose a potential threat of additional cash stringency. Clearly debt management is a central problem of government finance during fiscal 1959. But the preoccupation of the Treasury with reducing the frequency of refundings and keeping down interest charges diverts attention from the really significant problems of debt management.

MONEY RATES



Source: Federal Reserve Board.

Differential Impact of Debt Financing

Principles of business finance are of little use in determining the proper objectives of federal debt management. The objectives of a privately owned business are not the same as those of a national government. Whereas a business need not be concerned with the relation of its own financing to the public interest, the government must be. The magnitudes of government finance assure that it will have profound effects on the performance of the economy, and the government must be held responsible for these effects.

The automatic decline in tax receipts which accompanies a recession is widely hailed as a "built-in-stabilizer" because it cushions the decline in disposable incomes, arresting the decline in spending. But it also occasions an increase in the federal debt which, if handled improperly, may tend to offset any beneficial effects following from the reduction in taxes.

The techniques employed by the Treasury in its management of the existing debt and its raising of $7 billion in new money will make their effects felt mainly in those sectors of the economy which depend on borrowed funds for their financing. The Treasury, like any other borrower, sells its debt by making it attractive enough to entice buyers away from holding other assets.

As sufficiently attractive offerings are made, funds will be drawn either from cash balances which would otherwise have remained idle or else from the markets for other assets, particularly securities. This latter effect will reduce funds available for private spending on consumer durable and investment goods. The economic function of debt management is to hold down private spending by just the "right" amount, so that there is room for the government spending without inflationary pressures. To the extent that Treasury sales merely soak up idle funds, they have no deflationary impact to offset the government spending. In a period when total spending is insufficient to generate full employment, this is desirable.

The precise effect depends importantly on the types of securities being sold. Among the marketable issues, which currently comprise about two-thirds of the total debt held outside government agencies and the Federal Reserve, sales of long-term government bonds displace, per dollar of sales, more private spending than to shorter-term issues. Whereas bonds compete mainly with high-grade corporate, state, and municipal bonds and mortgages, 91-day Treasury bills compete directly with private short-term financial instruments, such as short-term open-market commercial paper, or absorb cash reserves which would remain idle in the absence of high returns on Treasury bills. Though it would be a mistake to assume that bill sales pick up only idle cash, they certainly do so in greater proportion than do longer-term issues.

To the extent that government debt sales do reduce spending in the private sector, their impact will be differential, hitting hardest those industries which depend for

their markets upon the availability of credit. There is raised here a fundamental problem of equity, often unnoticed in discussions of the debt problem.

Perverse Aspects of Recent Debt Policy

In the light of the superior deflationary power of long-term bonds, it might seem strange that during the boom period of fiscal 1955-57, the Treasury did not issue any bonds. Since most of the debt management activity during those years involved the refunding of maturing issues, with very little change in the amount of total debt outstanding, the effect of the decline in the average maturity of the debt was to add to inflationary pressures. Why, in the face of severe criticism from the financial community, did the Treasury allow this to happen?

Although it is impossible to rationalize the policy fully, one of the main considerations was undoubtedly the lower interest costs of short-term issues. The Treasury has always been inclined to overemphasize the importance of keeping down the interest bill. The temptation to finance at low rates seems irresistible at times.

It is significant that during the fall of 1957, as the spread between the short- and long-term borrowing rates diminished in response to Federal Reserve credit tightening, the Treasury announced its first bond issue in over two years. That this action followed closely the downturn in industrial production reinforces the contention that debt management may conflict with the public interest, although the prevailing uncertainty as to the underlying trend of the economy makes this error understandable.

More difficult to rationalize has been the continuation of bond issues through the first half of 1958. Though the bill rate was considerably below the bond rate during this period, $15 billion of bond issues were included in the refundings of February and June. But since the bill rate had declined again as the Federal Reserve eased credit, the interest-saving advantages of short-term borrowing had reappeared. The most likely explanation is the attraction of a high average maturity in lessening problems of refunding. With several billion of new money to raise in the near future, the Treasury was perhaps contented to sacrifice interest savings in order to avoid refunding problems in the period ahead.

Again, as in the case of interest costs, overemphasis on this factor is dangerous because it can lead to policies not in harmony with the public interest. The "burdens" of high interest costs and frequent refunding are less significant for the economy than those which could result from management of the maturity pattern of the debt in a way that tends to reinforce economic fluctuations.

So far in fiscal 1959, the Treasury has managed, by drawing down its balances, to postpone some of its new money financing. Currently, the weekly bill issue has been stepped up to $1.8 billion so that in most weeks receipts from these sales exceed the amount of bills maturing by about $100 million. In addition, an October issue of $2.7 billion in special 219-day bills has set the pattern for further sales of this kind, the proceeds of which will go partly to refunding and partly to add new money. Other issues since June have consisted entirely of 1-to-5 year maturities in certificates and notes. Although the average maturity of the debt declined from June through November to just over five years, December refunding operations have raised it slightly.

Looking ahead, it seems unlikely that there will be any significant lengthening in fiscal 1959. To those who think that this is no time for the Treasury to be impinging on the availability of loan funds, the policy now being followed represents a move in the right direction. But it will be greeted with criticism from those who are alarmed over the prospect of inflation.

Federal Reserve Powers Partly Abdicated

The Federal Reserve System plays a role in debt management by dealing in government securities for its own account. Federal Reserve sales and purchases of securities have precisely the same economic impact as do such transactions by the Treasury. However, whereas the Treasury usually endeavors to minimize the effects of its operations on bank reserves by holding the proceeds of its issues in accounts with commercial banks until it is ready to spend them, Federal Reserve operations in government securities are conducted for the purpose of *controlling* member bank reserves.

Whatever its purposes, the Federal Reserve has, and exercises, powers of debt management. Because of its vast powers to create money, it has a *power* much greater than that of the Treasury over the magnitude of the debt held by the public, and its *powers* over the maturity distribution are at least as great as those of the Treasury.

For example, the Federal Reserve can, if it wishes, absorb more government debt than the Treasury issues during the present fiscal year, actually lowering the amount of debt held by the public. That it will not do so is a foregone conclusion, for the effect of its absorption of the $7 billion in "new money" issues would be to increase bank reserves sufficiently to allow the banks to increase their loans and investments, and consequently the supply of demand deposit money, by over $30 billion. Even if the Federal Reserve absorbed something less than $2 billion of the debt during the current fiscal year, commercial bank lending power would rise by more than enough to absorb the remaining $5 billion of the increase.

This, too, appears unlikely in the absence of a marked worsening of the general economic outlook, for a $7 billion increase in the money supply equal to the $7 billion of debt issues would be inconsistent with Federal Reserve intentions of allowing very little increase as long as prices and employment are not falling. That the Federal Reserve is willing to live with the present level of unemployment is indicated by its current policy of maintaining pressure on bank reserves.

However, this does not mean that all economic aid is being withheld. Since the reversal of the easy money policy in midyear, the discount rate at which member banks may borrow has been allowed to lag behind the Treasury bill rate. This has made it profitable for the banks to act as underwriters for Treasury issues, by borrowing reserves to hold them until markets develop. The Fed probably regards this as superior to giving direct support to the bill market, since it is extremely anxious to be absolved of responsibility for debt management. For this reason the Fed has imposed upon itself a policy of dealing in "bills only," arguing that this least interferes with the establishment of the pattern of interest rates by the competitive forces of supply and demand.

Support May Be Forced

The weakness of this position is, of course, apparent in a year such as this, for large-scale governmental invasions of the money and capital markets can hardly be regarded as "competitive market forces." The fact is that there can be no "natural" determination of interest rates in an economy where government operations in securities markets are of the magnitude found in the United States.

Be this as it may, the "bills only" policy assures that there is no chance of the Federal Reserve supporting the

prices of long-term issues unless disorderly markets develop, as happened last July when the Fed reluctantly stepped into the government bond market to halt a rapid decline blamed on speculative activity. But if efforts to keep the money supply constant in the face of huge Treasury issues result in a really drastic increase in rates, say to 3.5 percent on bills, without evidence of full recovery from the recession, it is reasonable to expect some supporting action in the form of either purchases of bills or a further lowering of bank reserve requirements. One thing not to expect is complete neutralization of the differential impact of the debt financing.

With the price level remaining stable, excess capacity in a number of major industries entailing "competitive markets," 6 percent of the labor force unemployed, and the Federal Reserve preoccupied with inflation, it would be heartening indeed if the Treasury could avoid trying to tap the long-term markets until conditions change for the better. The declining spread between the short- and long-term interest rates presents a temptation to issue bonds. If this can be avoided, increasing tightness in the bill market may push bill yields to a level embarrassing even to the Fed, possibly forcing some support of Treasury financing. Any inflationary effects of a consequent increase in the money supply can be taken care of when the time comes. It is not here yet.

Effect of Automatic Stabilizers

(Continued from page 2)

however, the recession originated in business operations, and the adjustment was made as rapidly as possible without regard for earnings or taxes. Business capital outlays have remained low. The most important factor in the recovery has been the cessation of inventory liquidation, and the movement to liquidate ran its course and came to an end for reasons independent of the tax saving.

The most that can be said is that the tax decline helped corporations to maintain the rate of dividend payments. A lag in dividends behind profits is the normal behavior revealed by a study of past cyclical movements. Perhaps efforts to maintain dividends were intensified in this instance. If so, the extra increment may be accounted for by such aspects of corporate thinking as prevalent notions about the responsibility of business for the overall level of economic activity and a desire to conceal the fears which were so strikingly evident in the inventory sell-off. In any case, it seems fair to say that maintaining dividends was the result of corporate policy and not of any dependable stabilizer.

Transfer Payments Help Hold the Line

Transfer payments are commonly thought of as the prototype of all automatic stabilizers. From the beginning of the decline these payments rose steadily and by the third quarter of this year were at a rate of $5.2 billion above the year before.

Only about half of this increase, however, consisted of unemployment compensation and other types of expenditure related to the recession. By far the larger portion of transfer payments consist of retirement and other old-age benefits, veterans' bonus and disability payments, assistance for the blind and for dependent children, and other programs that are not directly influenced by the level of activity. These accounted for over half of the $5 billion increase. They helped to strengthen the economy early this year, but that effect is largely coincidental.

The old-age program has been and will continue for some time on an upward trend that is basically irreversible and independent of short-term economic fluctuations. Not only do these payments fail to meet the definition of an automatic stabilizer but their contribution to stopping a recession is much lower than unemployment compensation because of the tax offsets. A dollar of old-age pension probably counts for more in economic activity than a dollar of payroll taxes subtracts. The difference, however, cannot be great on the average, say 10 to 15 percent of the dollar transferred.

Furthermore, whatever the increases in old-age benefits may have contributed to economic activity will be lost after the start of 1959. In passing 1958 legislation, Congress raised benefits but set up tax increases more than sufficient to cover the additional costs. In the words of the Senate Finance Committee, benefits "should be fully financed by appropriate changes in the tax schedule . . . so that the actuarial insufficiency is reduced to the point where it is virtually eliminated, namely below ¼ of 1 percent of payroll. . . ."

Changes under the 1954 and 1956 legislation had not provided tax receipts fully adequate to cover benefits for the greatly enlarged group of recipients. The 1958 legislation provided that on January 1, 1959, tax rates rise from 4½ to 5 percent and maximum taxable income from $4,200 to $4,800. The billion-dollar deficit of payroll tax receipts that has occurred this year will be wiped out next year and reserves will again be expanding. Hence, no further stimulus from the old-age programs will be experienced in the near future.

Liberalize Unemployment Compensation

Unemployment compensation is a more effective stabilizer in that it goes to families whose need is most urgent and comes largely from reserves so that the payments are not offset. Benefits from the state programs more than doubled this year, rising to $4 billion. Together with other unemployment programs and direct relief, the increase approached $2.5 billion, and in the aggregate these payments totaled just over 1 percent of gross national product. The large contribution of unemployment compensation was partly the result of the temporary program for extending the payment period from 26 to 39 weeks. Neither this nor direct relief are automatic but will again have to be specially provided to meet the needs of future recessions. One thing that could be done now would be the passage of legislation to strengthen the unemployment compensation program — both to increase benefits over the recent $31 a month average and to make possible extension of the term over which benefits are paid whenever emergency conditions in the labor market may develop.

In 1958, the increase in unemployment compensation and other transfer payments of a cyclical character offset about one-eighth of the decline in gross national product. Including the full effects of everything that can be considered automatic stabilizers, the combined offset was possibly twice as great. In combination they provided at best a small fraction of the remedy needed for the total problem. The result should not lead to false ideas about their effects in preventing depressions.

No doubt the stabilizers will always be supplemented by other government measures to counter a decline. Taking all of them together on this occasion — whether *ad hoc* or automatic — they offset about half of the decline in gross private product during fiscal 1958. Since some of these contributions were fortuitous, it is hardly accurate to say that a permanent solution of the problem of depression has been achieved. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Electrical Energy

The Lockheed Aircraft Corporation's Missile Systems Division has developed a new fuel cell which turns chemical energy into electrical energy in one step. The key to the success of the fuel cell is a material developed by Lockheed's researchers in the field of solid state physics. Experiments showed that 70 percent or more of the fuel's potential energy was converted into electrical energy. This conversion efficiency is far superior to that of steam and internal combustion engines.

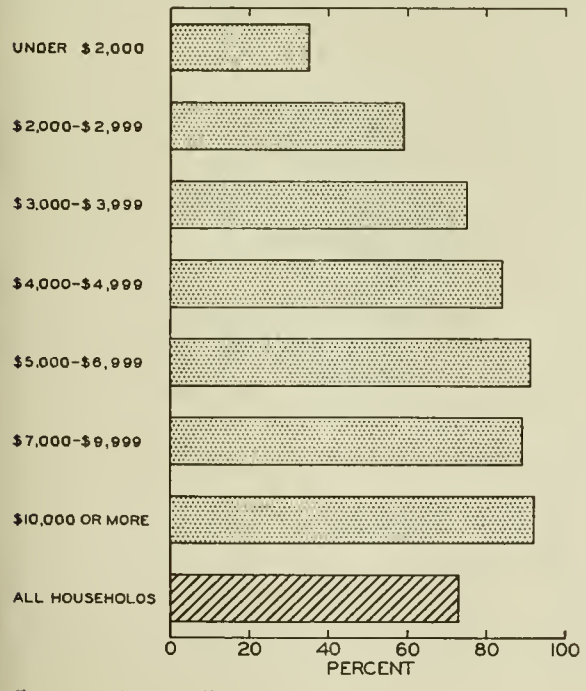
Since the new fuel cell is being designed to produce 100 watt-hours per pound, its commercial prospects are vast and run the gamut from communication systems and other gear aboard a space ship to the operation of industrial machinery. Electrification of rural areas and remote communication stations could also be accomplished more economically.

Some special features of this new fuel cell which indicate its greater effectiveness than other similar devices are adaptability to almost any size, depending on the power needed; absence of noise and fumes; ease of maintenance due to the lack of movable parts; immunity from the disintegration which afflicts the lead storage battery; and ability to operate on any one of a number of high-energy chemical fuels in either solid or liquid state.

Fewer Tools, More Work

According to the magazine *American Machinist,* the most striking fact that emerged from its recently completed Eighth Inventory of Metalworking Equipment was that the total number of machine tools installed in the metalworking industries has declined approximately 225,000 units, or 10 percent, since 1953. Even though the number has declined, industrial capacity during the same period has increased 40 percent. The increasing use of multi-station machines that perform numerous operations and the replacement of older machines with fewer and more productive machines are the two factors responsible for this decline in number of units in conjunction with an increase in capacity.

HOUSEHOLD OWNERSHIP OF AUTOMOBILES BY INCOME GROUPS, 1957



Source: *Automobile Facts and Figures, 1958.*

New Teletypewriter Setup

The Army and private industry have jointly developed a new teletypewriter setup which will handle 750 words a minute. Three basic units are new in this system: first, a teleprinter developed with the Burroughs Corporation which gains its speed by eliminating the motion of keys; second, a reperforator developed with Kleinschmidt Laboratories which duplicates punched tape for resending; and third, a transmitter developed with the Minneapolis-Honeywell Regulator Company which reads tape by means of photoelectric cells and then sends the appropriate electric signals to other units.

The new system will be useful to the communication industries, the news services, and business in general for communication among plants and branches. It makes possible a far larger volume of prepunched messages in less time with fewer machines and operators. It will be at least a year before all units are in production.

Buying Survey

The Census Bureau will begin a regular quarterly survey of consumer buying intentions in January, 1959. The emphasis will be placed on key durable goods such as automobiles, television sets, washers, and refrigerators. The survey will be experimental for at least one year, and the Bureau will publish none of the results until it is convinced of their usefulness. Its plan of operation is to attach questions on consumer buying intentions to its regular labor force survey every three months. The consumer survey will include 18,000 households across the country. By having periodic call-backs, the Bureau hopes to be able to determine whether households performed as they said they would in previous surveys.

Automobile Ownership by Households

The 1958 edition of *Automobile Facts and Figures* showed that 36.5 million households in the United States owned 43.4 million automobiles in 1957, an average of 1.2 cars per household. It was reported that 73 percent of the households owned automobiles and that 12 percent owned two or more. When ownership was classified according to income, it was found that 35 percent of those households with incomes of less than $2,000 owned automobiles, compared with an average of 91 percent in households with incomes over $5,000 (see chart). Of the households in the income classifications of $5,000 to $6,999, $7,000 to $9,999, and $10,000 or more, it was found that 16 percent, 23 percent, and 50 percent respectively owned two or more automobiles.

Ownership varied from a low of 56 percent of the households in cities of 500,000 or more to a high of 87 percent in the metropolitan suburbs. In the four major regions of the United States the West was high with 81 percent of the households owning cars, followed by the North Central with 79 percent, the South with 68 percent, and the Northeast with 67 percent.

LOCAL ILLINOIS DEVELOPMENTS

The major indexes of Illinois business showed diverse movements in October. Coal production experienced the greatest increase with 14 percent, life insurance sales rose 10 percent, and bank debits for selected Illinois cities gained 8 percent. The major decline during the month was in construction contracts awarded, which fell 13 percent, primarily because of seasonal factors. In addition there were slight declines in farm prices and manufacturing employment. Year-ago comparisons showed gains in all indicators with the exception of petroleum production, coal output, manufacturing employment, and electric power consumption (see p. 4).

Employment Service

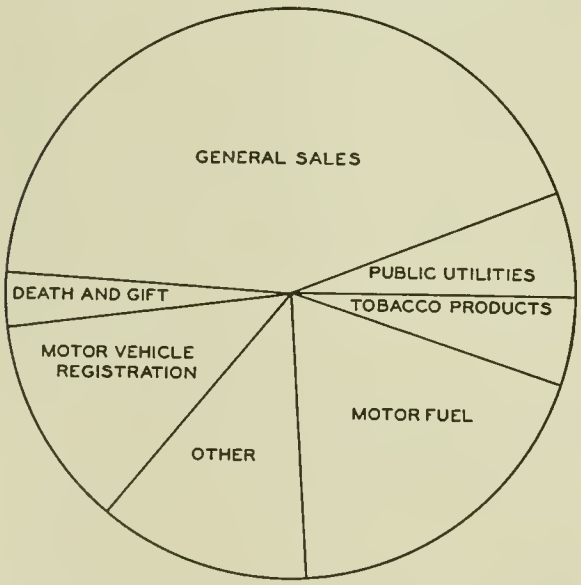
Data released by the Illinois State Employment Service show that a total of about 498,000 applicants sought employment through its offices in fiscal 1958, an increase of 36 percent from fiscal 1957. However, total placements made by the agency dropped approximately 14 percent from the fiscal 1957 level. The decline in placements occurred in 15 of the State's 21 manufacturing industries, in wholesale and retail trade, and in transportation. Gains in placements were reported in services and in finance, insurance, and real estate.

Road Testing

The American Association of State Highway Officials has commenced a two-year testing of six loops of highway pavement, a road to nowhere, built along an eight-mile right-of-way near Ottawa, Illinois. These six test loops, each with different specifications, have been constructed in accordance with rigid controls to determine what effects trucks of various weights have on the pavement, road bed, and bridges that make up the loops. Volunteer drivers of the United States Army Transportation Corps will drive trucks over the course at a constant speed of 30 miles an hour for eighteen hours a day, six days a week, during the two-year period. Mechanical and electronic equipment designed to record changes in the road bed and surface will report on the effects of the traffic on the various sections of the road.

The information gathered during the two years will help decide the load-carrying capacities of existing highways and how future roads will be built. The information will be studied to determine the maximum desirable dimensions and weights for vehicles using federal-aid highways and to arrive at an equitable distribution of the tax burden among various users of these highways.

STATE TAX COLLECTIONS, FISCAL 1958



Source: Bureau of the Census, *Detail of State Tax Collections in 1958*, p. 9.

Mineral Production in Illinois

According to preliminary estimates published by the Illinois State Geological Survey in *Mineral Production in Illinois in 1957*, total value of mineral production in Illinois amounted to $605 million in 1957. This was down 1.4 percent from the record high set in 1956, but still was higher than all other preceding years. The two leading minerals, oil and coal, contributed 70 percent — about $240 million and $185 million respectively — of the State total.

Illinois ranked eighth in the nation in oil production in 1957 and led all states lying east of the Mississippi River, having produced 43 percent of all oil coming from these states. Oil production was estimated to be about 77 million barrels, or approximately 7 percent less than in 1956. This decline in the volume of oil production was due largely to a temporary reduction of refinery operations caused by a strike and does not necessarily reflect a drop in potential production.

Coal and clay products were the only minerals that increased in value from 1956, rising 1 percent and 3 percent respectively. The State's coal industry was fourth in the nation and contributed approximately one-tenth of the national total. Clay products were valued at $61 million.

Illinois is the nation's leading producer of fluorspar, a mineral used in the chemical, ceramic, aluminum, and steel industries. The production of this mineral in 1957 was valued at $8.4 million. The other minerals produced in the State — stone, nonferrous metals, sand, and gravel — were valued at about $110 million.

Tax Collections

Total state tax collections in the United States reached an all-time high of $14.9 billion in fiscal 1958, according to preliminary data published by the Bureau of the Census. All of the major tax categories shared in the net rise of $473 million, which represents an increase of 3 percent over the previous year's tax collections.

Tax receipts in Illinois also were at a record high of $732 million, an increase of 6 percent from fiscal 1957. All major tax groups contributed to this rise, with the largest percentage increase coming from license collections, which advanced 8 percent. Receipts from the general sales or gross receipts taxes were next, with an increase of 7 percent. Selective sales and gross receipts taxes — levies placed on particular commodities or services such as motor fuels, liquor, and public utilities — gained only 4 percent.

From the accompanying chart, it can be observed that approximately three-fourths of Illinois tax revenues in fiscal 1958 were derived from general sales taxes, motor fuel taxes, and motor vehicle registrations. Automobile owners supplied three-eighths of the State's taxes in the form of levies on new and used cars, accessories, fuel, registration, licenses, and the automobiles as property.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$40,779[a]	1,105,466[a]	$524,232[a]		$17,621[a]	$16,235[a]
Percentage change from Sept., 1958	+30.5	−2.7	+5.3	+9	+8.2	+10.6
Percentage change from Oct., 1957	+46.4	+0.0	−7.0	+2	+5.8	+8.4
NORTHERN ILLINOIS						
Chicago	$23,413	837,354	$381,401		$16,071	$14,142
Percentage change from Sept., 1958	+16.3	−0.8	+5.8	+10	+7.9	+10.7
Percentage change from Oct., 1957	+23.9	+0.5	−5.2	+3	+6.0	+7.2
Aurora	$1,095	n.a.	$ 8,856		$ 72	$ 152
Percentage change from Sept., 1958	+26.2		+9.8	+2	+3.8	+5.5
Percentage change from Oct., 1957	+74.6		+6.2	+26	+6.2	+16.0
Elgin	$1,751	n.a.	$ 5,995		$ 49	$ 111
Percentage change from Sept., 1958	+437.1		+4.4	n.a.	+11.3	+25.6
Percentage change from Oct., 1957	+550.9		−5.9		+11.7	+2.0
Joliet	$3,773	n.a.	$10,016		$ 90	$ 106
Percentage change from Sept., 1958	+539.5		+9.1	−6	+13.5	+24.7
Percentage change from Oct., 1957	+127.0		−19.6	+1	+5.9	+12.8
Kankakee	$ 313	n.a.	$ 4,911		n.a.	$ 53
Percentage change from Sept., 1958	−6.0		+9.8	n.a.		−7.0
Percentage change from Oct., 1957	−54.8		−10.3			+24.4
Rock Island-Moline	$1,041	24,804	$10,214		$ 117[b]	$ 167
Percentage change from Sept., 1958	−16.3	−4.2	−1.0	n.a.	+13.7	+15.4
Percentage change from Oct., 1957	+84.2	+4.7	−2.1		+8.7	+15.8
Rockford	$1,223	42,514[c]	$16,164		$ 190	$ 226
Percentage change from Sept., 1958	+13.0	−4.3	+8.2	+11	+10.9	+9.7
Percentage change from Oct., 1957	−27.2	+0.9	−18.1	+5	+0.3	+16.9
CENTRAL ILLINOIS						
Bloomington	$ 900	8,514	$ 5,467		$ 82	$ 108
Percentage change from Sept., 1958	+429.4	+3.4	+6.1	n.a.	+15.5	+9.1
Percentage change from Oct., 1957	+725.7	+9.8	−6.0		+14.9	+23.9
Champaign-Urbana	$ 603	12,706	$ 8,340		$ 94	$ 134
Percentage change from Sept., 1958	+88.4	−0.8	+16.3	n.a.	+27.0	+27.3
Percentage change from Oct., 1957	+90.2	+18.5	−3.3		+9.8	+34.7
Danville	$ 161	12,575	$ 5,837		$ 53	$ 76
Percentage change from Sept., 1958	−46.7	−7.3	+1.0	+6	+6.6	+15.6
Percentage change from Oct., 1957	+49.1	+7.0	−14.5	−3	−1.3	+14.7
Decatur	$3,391	33,351	$10,904		$ 151	$ 121
Percentage change from Sept., 1958	+303.2	−6.1	−1.9	+2[c]	+23.5	−7.6
Percentage change from Oct., 1957	+326.5	−6.0	−17.0	+6[c]	+3.4	+12.5
Galesburg	$ 785	9,310	$ 4,617		n.a.	$ 46
Percentage change from Sept., 1958	+77.6	−2.8	+5.2	n.a.		−2.2
Percentage change from Oct., 1957	+140.1	+13.6	−8.3			+28.3
Peoria	$ 418	42,355[c]	$16,202		$ 254	$ 291
Percentage change from Sept., 1958	−87.6	−21.5	+3.3	+3[c]	+7.5	+11.4
Percentage change from Oct., 1957	+26.3	−16.4	−14.6	−3[c]	+0.6	+22.5
Quincy	$ 566	9,666[c]	$ 4,945		$ 53	$ 75
Percentage change from Sept., 1958	+139.8	−6.3	+4.4	+16	+17.5	+6.4
Percentage change from Oct., 1957	+136.8	−19.3	−7.1	+1	+5.6	+23.5
Springfield	$ 912	36,549[c]	$12,671		$ 135	$ 266
Percentage change from Sept., 1958	+75.0	−2.9	−2.7	+12[c]	+5.8	+4.3
Percentage change from Oct., 1957	+52.0	+6.5	−13.6	0[c]	+7.2	+16.1
SOUTHERN ILLINOIS						
East St. Louis	$ 117	12,892	$ 8,523		$ 167	$ 76
Percentage change from Sept., 1958	−45.8	−15.2	+0.7	n.a.	+7.3	+13.9
Percentage change from Oct., 1957	−41.2	+2.0	−11.6		+0.5	−4.4
Alton	$ 62	13,773	$ 4,652		$ 42	$ 37
Percentage change from Sept., 1958	−36.7	−5.1	+5.5	n.a.	−1.7	+9.8
Percentage change from Oct., 1957	−80.6	−4.2	−11.3		+9.6	+12.7
Belleville	$ 255	9,104	$ 4,518		n.a.	$ 49
Percentage change from Sept., 1958	+60.4	−17.8	+2.5	n.a.		+7.6
Percentage change from Oct., 1957	+114.3	+11.6	−13.6			+25.4

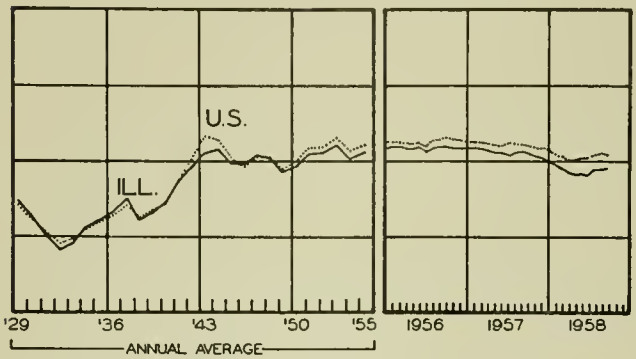
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for September, 1958. Comparisons relate to August, 1958, and September, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending October 17, 1958, and October 18, 1957.

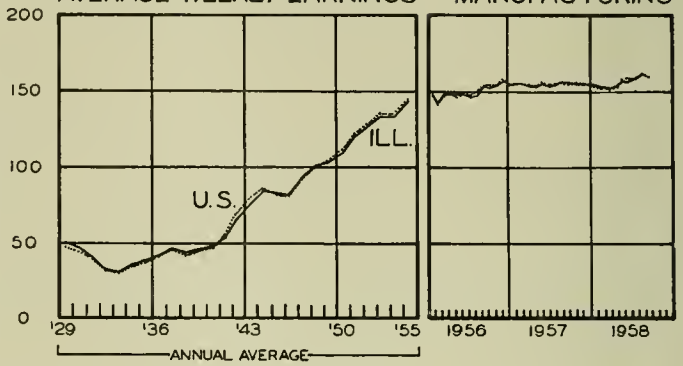
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

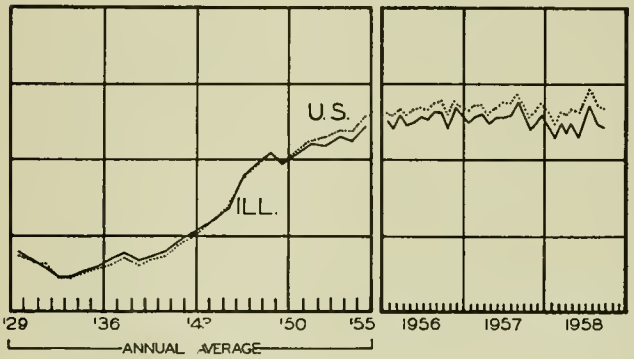
EMPLOYMENT MANUFACTURING



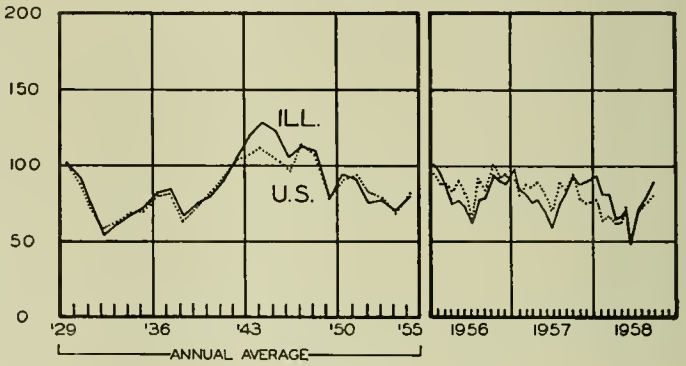
AVERAGE WEEKLY EARNINGS - MANUFACTURING



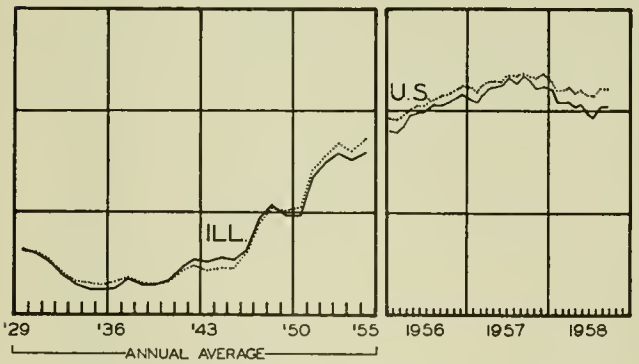
DEPARTMENT STORE SALES



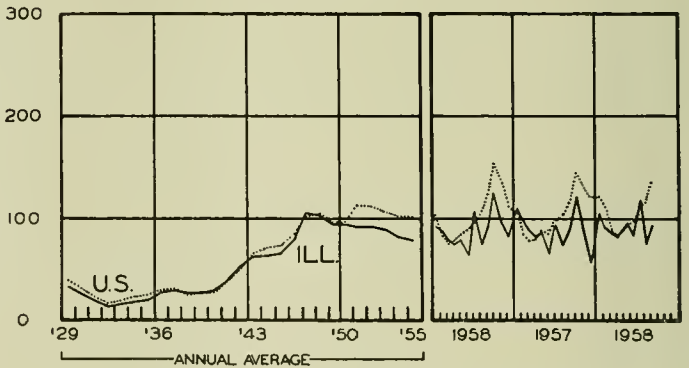
COAL PRODUCTION



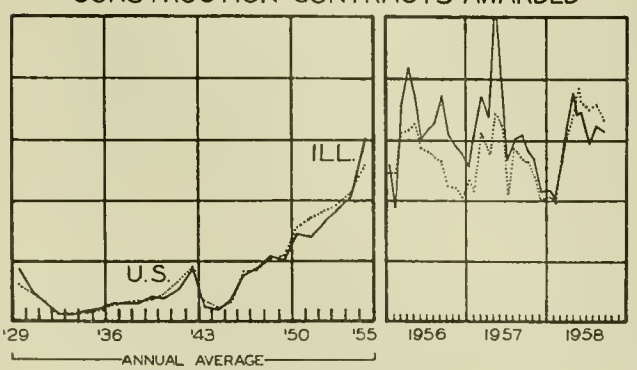
BUSINESS LOANS



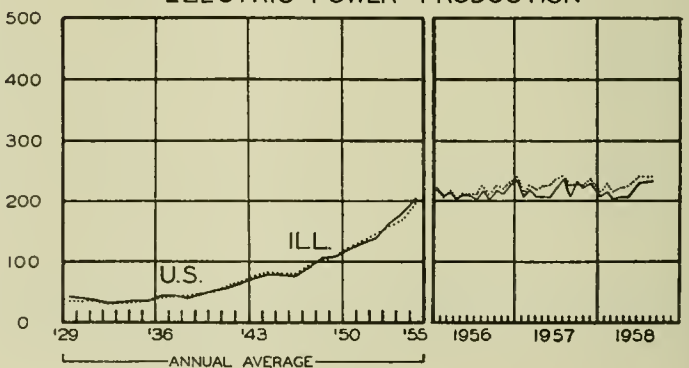
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XVI JANUARY, 1959 NUMBER 1

HIGHLIGHTS OF BUSINESS IN DECEMBER

The economy continued its recovery in December. Industrial production held fairly steady, the index picking up a point to 142 (1947-49 = 100). Steel ouput held close to 2 million tons a week, showing larger gains over the corresponding weeks of 1957 as a result of the sharp decline last year. The automobile industry turned out almost 594,000 cars, the highest monthly production since January, 1957, and 11 percent more than last December. Department store sales increased sharply, the seasonally adjusted index rising from 137 (1947-49 = 100) in November to 145, where it was 5 percent above the year-earlier month.

Improvement was also evident in a number of other weekly series. Heavy construction awards made a moderate recovery after a brief dip in November. Freight carloadings regained the volume of December, 1957, although still well below the like month in 1956. Defense expenditures increased over November and the preceding December, as did the federal cash deficit. Prices remained fairly steady, except in the stock market, where new highs were recorded each week.

Inventories and Sales Rise

For the first time since August, 1957, the book value of total manufacturing and trade inventories were up from the previous month at the end of November. An increase of $200 million, mainly new automobiles in dealers' hands, raised retail inventories to $23.7 billion on a seasonally adjusted basis, while wholesale and manufacturing inventories held steady. The total, $85.1 billion, was $5.9 billion below the year-ago figure.

A gain of $600 million, all in durables, raised manufacturing and trade sales to $56.2 billion in November. They were also $600 million above November, 1957. Sales by manufacturers were up $400 million to $27.6 billion, while sales of wholesalers at $11.6 billion and retailers at $17.0 billion were each up $100 million.

New orders received by manufacturers held steady at $27.9 billion after seasonal adjustment, reflecting a $200 million increase in durables and an offsetting decline in nondurables.

Construction Down Seasonally

A major brake on the business decline and a principal factor in the recovery, construction activity continued at a high level in December, although off seasonally from November. Expenditures of $4.0 billion in the month, down 10 percent from November but 7 percent above the year-earlier month, carried the year's dollar volume to a new high of $49.0 billion, 2 percent above 1957. Increased costs kept physical volume at about the level of the preceding year.

Private construction outlays, which in 1958 for the first time since 1949 failed to show an advance over the preceding year, were off 7 percent from November but were 5 percent above December a year ago. Industrial building, down 36 percent from December, 1957, and 31 percent from 1957 to 1958, showed little change between November and December. Private nonfarm residential building declined 8 percent from the preceding month but was still running 18 percent ahead of the year-earlier month.

Public expenditures on new construction, up 6 percent for the year as a whole, accounted for all of the increase in construction outlays during the year. The December total was 11 percent above the preceding December but dropped 14 percent below November as winter weather forced curtailment of highway and other projects.

Auto Loans Rise

The first seasonally adjusted increase in automobile paper outstanding since December, 1957, contributed to a rise in consumer installment debt of $142 million in November. The $38 million advance in automobile paper was accompanied by increases of $32 million in other consumer goods paper, $18 million in repair and modernization loans, and $54 million in personal loans. However, total installment debt, at $33.1 billion, was still $440 million below November, 1957, and automobile debt of $14.1 billion was down $1.4 billion.

Noninstallment debt of consumers held steady at $10.3 billion, with decreases in single-payment loans and charge accounts exceeding only slightly an increase in service credit on an adjusted basis. Total consumer credit amounted to $43.5 billion, up only slightly from a year ago.

Unemployment Up

Despite the continuing recovery in business activity, an increase of 275,000 in unemployment from mid-November to mid-December was reported, bringing the total to 4.1 million. About half of the rise was seasonal, reflecting the contraction of outdoor jobs. The seasonally adjusted rate of unemployment rose from 5.9 percent in November to 6.1 percent in December. Total employment declined to 64.0 million, a drop of 680,000 from the November figure.

ECONOMIC PROSPECTS FOR AGRICULTURE IN 1959 · · By H. G. Halcrow · · Page 8

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

What Sequel to Recovery?

The economy has made a strong comeback from the recession of 1958. This kind of experience in finding recessions minor during the course of a long boom has always encouraged the greatest excesses in the late stages and led to ultimate collapse.

The gross national product in current dollars has risen to a new high estimated at $454 billion in the fourth quarter of 1958. In 1957 prices, this is equivalent to $442 billion, or roughly the same rate as at the mid-1957 peak. A further increase of several billion in the first quarter should produce a new high in deflated as well as in current dollars.

The recession was brought on most of all by the growth of excess capacity in many industries and by the extended decline in housing from the early 1955 peak. Cutbacks in military programs also contributed. Business began to liquidate inventories and to cut back fixed investment in a concert of misgiving. The swing of inventories into liquidation alone accounted for roughly half of the decline; and the subsequent return to accumulation accounted for roughly half of the recovery to the end of 1958. Neither of these movements could validly be projected as a means of arriving at a forecast.

Important Factors in the Outlook

What many fail to appreciate is how fast the recovery has run. Some factors, like housing starts and auto production, have already reached levels from which declines must be expected. Others, like federal purchases and inventory changes, have already exhausted most of the impetus that has helped the recovery thus far. There is hardly any substantial stimulus left in developments than can now be definitely foreseen.

Government Programs. The rise in federal purchases of goods and services is near the end under present programs. There is perhaps still $1 billion to go in defense expenditures, but other programs like farm price supports are passing their peaks and will be at least partially offsetting this minor increase. Transfer payments are also past the point of making positive contributions. Unemployment compensation is declining. A sharp increase in old-age pensions has occurred but this has been more than offset by the increase in payroll taxes, so that the effect on consumption is slightly negative.

The possibility of larger federal expenditures seems to depend largely on international developments. Disturbances have constantly kept the economy from conforming to past standards of normality.

On the other hand, declines are possible because the Administration is dominated by the budget balancers. Balancing the budget for fiscal 1960 at $77 billion would undoubtedly turn the economy down, but there is little likelihood than any such reduction in expenditures can be effected. If expenditures continue at this year's peak rate, the next budget total will be higher despite Administration efforts to reduce it.

Increases in state and local purchases may be projected upward through the first half of 1959 at the pace of recent years as a result of projects already under way or approved. After that the rise is likely to fade, since the pinch of strained finances is spreading.

Residential Construction. The Commerce-Labor forecast of 1,200,000 housing starts in 1959 was worked out on the assumptions, first, "of a continued rise in the nation's total output of goods and services," and second, "that funds for construction will be generally adequate. . . . " Since the recent rate of starts has been above 1,300,000, it implies a decline to under 1,100,000 by the end of 1959. Early evidence of the decline is available in data on VA and FHA applications.

In the opening months of 1958 housing starts fell to a nine-year low. Then the government provided a temporary stimulus in two forms: first, improved terms for the home buyer, enabling more families to become owners, and second, commitments for mortgage funds which enabled builders to expand operations with little risk of loss. The reaction was surprisingly strong.

With the return of tight money these stimuli have ceased to operate. As the Commerce-Labor report puts it, ". . . money for home mortgages will become less readily available at the comparatively low downpayments and interest rates prevailing in 1958."

Allowing for the lag of construction activity behind starts, homebuilding will be at a peak in the first quarter. Thereafter, it will tend to fall off. The projected decline in physical volume of work put in place amounts to more than $1 billion (in 1957 prices) by the last quarter, or about enough to offset further increases in government programs over the same period.

Some basic factors in the housing cycle suggest that the decline may be faster. Employment is lagging. Vacancies have risen in the past year and will tend to rise faster now that the rate of building has risen and the rate of household formation has fallen. Starts may fall short of the Commerce-Labor projection for 1959 by 10 percent or more, reaching a new low rate by the end of the year. On the other hand, the hope for stabilizing this activity exists in the possibility of new government action. Several new housing bills are expected to be introduced early in the new session of Congress.

Business Investment. Recent reports indicate that the decline in business outlays for new plant and equipment has leveled off. The latest Commerce-SEC survey of investment plans indicates a small increase in the first quarter of 1959, but the preliminary quarterly estimates have consistently been high for almost three years, so that this small increase is of little significance.

The only annual survey data for 1959 are those compiled by McGraw-Hill last October. They showed a 0.5 percent increase over 1958 — that is, no significant re-

(Continued on page 6)

THE NATION'S TIMEMAKER

From ancient times man has constantly sought more accurate methods of measuring time. Many crude devices, such as sundials, hour glasses, notched candles, and water clocks, were developed and used until after the Dark Ages. But by the fourteenth century mechanical instruments which struck a bell at the approximate hour began to appear in church and abbey towers in Europe. Although extremely bulky and inaccurate, these are claimed to be the first modern clocks. Many refinements, such as the pendulum, coil springs, minute and second hands, followed in the next three centuries. By 1600 the basic components of timepieces as we know them today had been developed.

The business of clock- and watch-making appeared in this country not long after the establishment of the early colonies. The new clockmakers, most of whom were immigrants from England and Holland, settled then and later in cities where their skilled handicraft could tap that part of the market not supplied by imported clocks.

Within a few decades after the Revolutionary War, clock factories began to spring up. Smaller, cheaper clocks made with interchangeable parts revolutionized the industry in the half-century before the Civil War. Mass production of watches did not appear until about 1850, some four decades after that of clocks. This lag resulted from the difficulty of producing the small, uniform, high-quality, interchangeable parts that watches required, as well as from the fact that watches were in less demand.

Watches and clocks have not changed significantly in the past hundred years, but several important refinements have been introduced. The electric clock, brought out about 1914, has made hand-wound pendulum clock production nearly nonexistent today. An acid- and rust-resistant mainspring which would deteriorate much more slowly than older types was introduced in Illinois in 1947. The world's first electric watch containing a tiny power unit which can operate for more than a year without replacement was also developed in 1947.

A Look at the Industry Today

The clock and watch industry is among the most highly concentrated in the United States today. Following the Civil War, manufacture became concentrated in a few companies which, with the exception of those in Illinois and Ohio, were located on the Atlantic coast. This remains true today; of the industry's 145 establishments, only 12 can be found west of the Mississippi. The Bureau of the Census reports that the nation's 23 largest establishments accounted for 90 percent of the $179 million added by manufacture in 1954.

The industry quadrupled the value of its 1939 output of $81 million by 1947, and production in the postwar years rose to a record high of $413 million in 1953. In recent years some of the major companies have curtailed production to compensate for acute oversupplies. Some companies have continued to expand into other areas, such as electronics and miscellaneous measuring devices, electric shavers, and radios.

Imports of clocks and watches have been large in the postwar years. For example, in 1957 more than $75 million worth of foreign movements and parts were purchased; most of these were cased under American brand names. By contrast, exports of American clocks and watches in 1957 amounted to only $6 million. This was midway between the $10 million average of 1946-50 and the $3 million average for 1936-40.

Postwar Trends

One of the significant postwar trends has been the increased production of electrical timing devices for business purposes. American clockmakers in 1954, for example, shipped more than 6 million electrical timers for driving and recording use, an increase of 222 percent over 1947.

A movement continued toward greater acceptance of electric clocks in the home. About 8.4 million were purchased in 1957. Today an estimated three-fourths of the nation's 50 million households have one or more electric clocks. Also indicative of the trend was the fact that shipments of spring-wound clocks dropped by nearly half to 8 million units between 1947 and 1954. However, part of this loss was offset by a twofold increase in manual and self-winding automobile clocks in the same period.

Illinois — National Pace-Setter

Illinois became a clock- and watch-making state long after the industry was well-established in the East. The State's first watch factory was established at Elgin in 1864, although its first watch was not produced until 1867. Skilled craftsmen were enticed from the East and local apprentices were trained. By 1884, the Elgin and the Waltham (Massachusetts) plants together turned out an estimated one-third of all American watches. Other watch and clock factories appeared in the State; by 1909 Illinois challenged Connecticut's leadership in production with 20 percent of the nation's total compared with Connecticut's 21 percent. By 1939, Illinois led the nation, with a fourth of the total output.

In the early postwar years New York's dynamic growth in timepiece manufacture gave it the watch-clock leadership. That state had 112 of approximately 200 plants in 1947. However, the closing of a large number of New York's small plants has restored Illinois as the top state in total value added by manufacture, with 27 percent ($48 million) of the national total. New York shipped about $30 million more than Illinois in 1954, but its total added by manufacture lagged about $6 million behind this State.

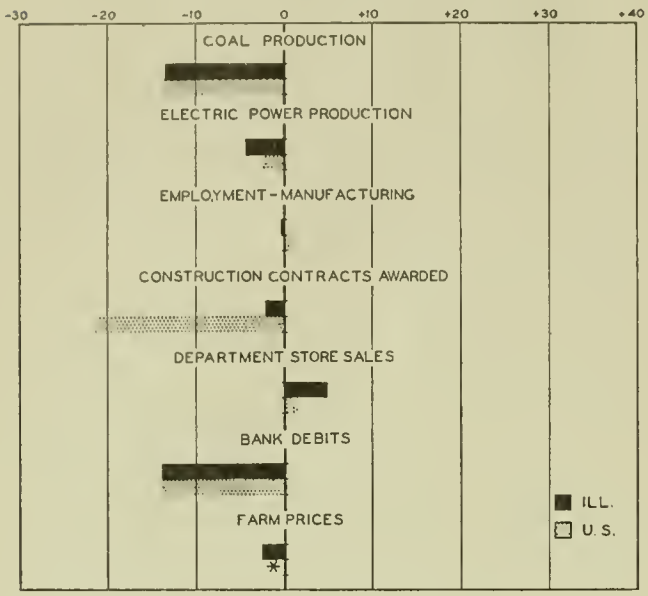
There are about twenty watch and clock manufacturers in Illinois, the majority being located in the Chicago metropolitan area. Although the State does not have the most factories, its 8,000 watch and clock workers exceed in number those of any other state.

The high-level position of Illinois in this industry appears to be assured for a number of years to come. Being the center of a number of well-established firms, Illinois is unlikely to experience any major shifts in production that will not be felt elsewhere.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1958, to November, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1958 (1947-49 =100)	Percentage change from Oct. 1958	Percentage change from Nov. 1957
Electric power[1]	220.8	− 4.4	+ 3.4
Coal production[2]	76.8	−13.6	−13.2
Employment—manufacturing[3]	94.5	− 0.4	− 9.0
Weekly earnings—manufacturing[3]	160.1[a]	− 1.2	+ 3.3
Dept. store sales in Chicago[4]	119.0[b]	0.0	+ 2.6
Consumer prices in Chicago[5]	127.4	+ 0.1	+ 1.4
Construction contracts awarded[6]	307.3	− 2.0	+14.4
Bank debits[7]	173.4	−14.0	+ 0.1
Farm prices[8]	83.0	− 2.4	+ 2.5
Life insurance sales (ordinary)[9]	289.0	− 6.4	+ 3.0
Petroleum production[10]	123.2	− 3.6	− 1.0

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] October data; comparisons relate to September, 1958, and October, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1958	Percentage change from Oct. 1958	Percentage change from Nov. 1957
	Annual rate in billion $		
Personal income[1]	360.0[a]	+ 0.7	+ 2.8
Manufacturing[1]			
Sales	331.2[a]	+ 1.5	+ 0.7
Inventories	49.3[a, b]	0.0	− 8.4
New construction activity[1]			
Private residential	20 5	− 2.5	+12.1
Private nonresidential	16.5	− 3.0	− 7.9
Total public	15.9	−14.4	+11.9
Foreign trade[1]			
Merchandise exports	19.2[c]	+17.4	− 4.5
Merchandise imports	13.4[c]	+18.2	+10.8
Excess of exports	5.8[c]	+18 0	−27.6
Consumer credit outstanding[2]			
Total credit	43.5[b]	+ 0.7	− 0.2
Installment credit	33.1[b]	+ 0.2	− 1.4
Business loans[2]	30.6[b]	+ 0.9	− 3.0
Cash farm income[3]	47.1[c]	+19.5	+17.4
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	141[a]	+ 2.2	+ 1.4
Durable manufactures	152[a]	+ 4.8	− 1.3
Nondurable manufactures	135[a]	+ 0.7	+ 5.5
Minerals	123[a]	+ 0.8	0.0
Manufacturing employment[4]			
Production workers	95	+ 2.0	− 6.4
Factory worker earnings[4]			
Average hours worked	100	+ 0.5	+ 1.5
Average hourly earnings	163	+ 1.4	+ 2.8
Average weekly earnings	163	+ 1.9	+ 4.4
Construction contracts awarded[5]	262	−21.6	+ 9.4
Department store sales[2]	137[a]	+ 1.5	+ 3.0
Consumer price index[4]	124	+ 0.2	+ 1.9
Wholesale prices[1]			
All commodities	119	+ 0.2	+ 0.9
Farm products	92	− 0.2	+ 0.2
Foods	110	− 0.5	+ 2.8
Other	127	+ 0.3	+ 0.7
Farm prices[3]			
Received by farmers	93	0.0	+ 4.5
Paid by farmers	123	0.0	+ 3.4
Parity ratio	81[d]	− 1.2	0.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for October, 1958; comparisons relate to September, 1958, and October, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1958					1957
	Dec. 27	Dec. 20	Dec. 13	Dec. 6	Nov. 29	Dec. 28
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,179	1,505	1,504	1,461	1,513	1,169
Electric power by utilities...mil. of kw-hr	12,379	13,534	13,450	13,017	12,274	11,218
Motor vehicles (Wards)...number in thous.	121	159	162	170	144	92
Petroleum (daily avg.)...thous. bbl.	7,129	7,097	7,097	7,067	6,983	6,940
Steel...1947-49 = 100	107	117	115	115	115	79
Freight carloadings...thous. of cars	432	571	589	594	539	410
Department store sales...1947-49 = 100	205	304	293	244	171	158
Commodity prices, wholesale:						
All commodities...1947-49 = 100	119.3	119.1	119.0	119.0	119.1	118.5[a]
Other than farm products and foods...1947-49 = 100	127.1	127.1	127.0	127.0	126.9	126.1[a]
22 commodities...1947-49 = 100	86.1	86.1	86.7	87.5	87.9	84.7
Finance:						
Business loans...mil. of dol.	31,147	31,181	30,793	30,675	30,586	32,288
Failures, industrial and commercial...number	185	251	267	294	244	166

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for December, 1957.

RECENT ECONOMIC CHANGES

Auto Output

Passenger car production in the United States dropped sharply in 1958 to slightly more than 4.2 million, the lowest level since 1948 when only 3.9 million cars were built. Total output was 30.6 percent below the 6.1 million units assembled in 1957.

Only American Motors Corporation built more cars in 1958 than in 1957. By almost doubling output to 217,316 cars, it increased its share of total automobile production to 5.1 percent from 1.9 percent. General Motors output fell 23 percent last year to about 2.2 million. However, its share of total industry assemblies actually increased to 51.1 percent because of even larger declines in Ford and Chrysler production (see chart).

Ford output fell 34.4 percent from 1.9 million in 1957 to 1.2 million last year. The sharpest decline was experienced by Chrysler. After showing the greatest improvement in 1957, Chrysler production slumped more than 50 percent to 581,244 cars, about 300,000 below its 1956 level, and its share of industry output was reduced to 13.7 percent.

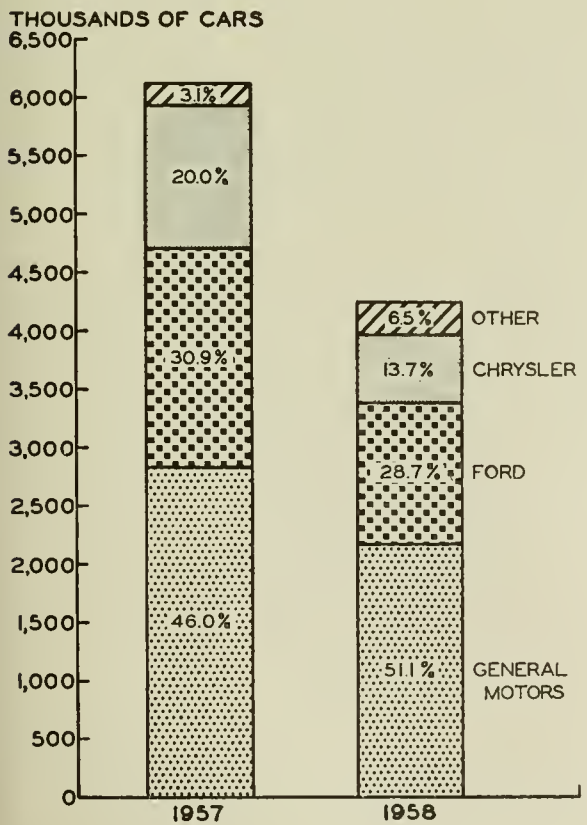
Personal Income

Personal income rose to a record seasonally adjusted annual rate of $360 billion in November, according to the latest Commerce Department report. This was $2.5 billion above the October rate and almost $10 billion higher than the $350.2 billion in November, 1957.

Most of the latest advance was accounted for by increased wage and salary payments, which totaled $241.5 billion during the month compared with $239.0 billion in October. This rise, in turn, reflected a stepped-up pace of production in the durable goods industries in November following reduced production schedules caused by work stoppages in the preceding month. The annual rate of wages for all commodity-producing industries rose from $97.7 billion in October to $99.8 billion in November. However, this was still below the $101 billion rate for the same month in 1957.

The department also predicted that personal income for the full year may reach a new high of more than $353 billion, a 1.5 percent gain over 1957. But with consumer prices nearly 2.5 percent higher, real purchasing power actually declined during the year.

AUTO PRODUCTION



Source: *Wall Street Journal*, January 5, 1959.

Machine Tools

Incoming orders for machine tools turned downward again in November, falling to $20.7 million, according to the latest report of the National Machine Tool Builders' Association. November orders were 27 percent below both the preceding month and November, 1957, when orders were about $28.5 million. The November decline in orders reflected a drop in volume for a number of producers who received a flurry of orders in October from customers anticipating proposed price increases.

For the first eleven months new orders amounted to $248.8 million, off more than 50 percent from the $501.3 million for the same period in 1957. At this rate, industry leaders expect total 1958 orders to be $275 million to $280 million, compared with $520 million in the preceding year. The ordering pace for 1958 has been the slowest since 1949 when incoming business sagged to $233 million.

The NMTBA also reported that shipments of machine tools fell to $25.2 million in November, down 22 percent from $32.7 million in October and 47 percent below the $47.6 million shipped in November, 1957. Through the first eleven months shipments amounted to $376.8 million and were expected to be slightly over $400 million for the full year. In the preceding year the eleven-month total was $787.7 million and shipments for the full year equaled $843.9 million.

Consumer Prices

Consumer prices rose two-tenths of 1 percent in November, pushing the Labor Department's consumer price index back up to July's record high of 123.9 percent of the 1947-49 average. The November increase exactly offset the decline in August. In the two intervening months the index had remained steady.

Almost all of the November advance in the CPI was the result of higher prices for 1959 model cars, according to the department's report. The new-car index jumped 6.4 percent over October levels and was 4.2 percent higher than a year earlier.

The agency also indicated that except for the upward pressure exerted by auto prices, the over-all index would probably have remained steady or declined slightly. Food prices fell for the fourth straight month to 119.4, about 1.9 percent lower than the July high. This was still 2.9 percent above November, 1957, however. Price reductions in pork were mainly responsible for the decline in food prices.

As a result of the increase of three-tenths of 1 percent in the CPI since May, almost one million workers, chiefly in steel and aluminum, will get a one-cent hourly pay increase.

What Sequel to Recovery?

(Continued from page 2)

covery, though the movement within the year would be tilted upward rather than down. Many forecasters now feel that this is low, that business was not taking full account of the recovery by October and will revise its plans upward, as in 1955. The survey estimates of sales, however, do not indicate any significant lack of optimism by reporting business; manufacturing industries anticipated increases in physical volume for 1959 amounting on the average to 9 percent.

It is possible that business may decide to embark on another round of expansion. What seems more logical is that with a stable level of production, another setback has a much stronger probability than recovery. The early 1957 rate of production has not yet been regained, but capacity has expanded at an annual rate of 4 percent, widening the margin of excess capacity. If over-all output turns down, investment will again reinforce the decline.

Inventories. Inventory changes have run a full cycle of decline and recovery. The latest figures show a moderate rate of accumulation. The optimistic view is that inventories have been liquidated and will have to be rebuilt. Hence, a higher rate of accumulation, though still moderate, is considered a plus factor in coming months.

This view overlooks the fact that the need for inventories is now considerably lower. There are three reasons for this: (1) At the peak of the price advance, in 1956 and early 1957, inventories were built up to too high a level. (2) The flow of goods is lower; all of the new high in real gross product has been made in services that are not included in the flows which determine the need for inventories. (3) Excess capacity is an alternative to inventories; when new supplies can be obtained without difficulty, there is no need to hold large inventories.

At the moment business seems to be inclined neither toward greater accumulation nor toward another turn into liquidation. The former might occur from new international disturbances. It might also occur from threats of strikes; but this would merely be borrowing from the future. On the other hand, any downturn in the demand for goods would probably call forth a renewal of liquidation, though not necessarily in the panic proportions of early 1958.

Consumer Expenditures. The optimists expect spending by consumers to advance strongly in 1959, partly because of an "autonomous increase" presumed to derive from the "fact" that spending in 1958, especially for autos, was "too low."

From the third-quarter data, with consumer savings reported at $22.5 billion, it might have seemed that consumption was low. In the fourth quarter, however, expenditures advanced much faster than personal income, dropping savings back to the $19 billion level of the first half of 1958. Since personal income was at a new high, so low a level of savings indicates an excess of expenditures rather than any deficiency. If this point has any relevance to the future, it is on the other side of the outlook.

It is true that auto sales were rather severely depressed in 1958. The industry is now forecasting a 25 to 30 percent increase in domestic sales from the 4.3 million for 1958, putting total sales for 1959, including imports, in the range of 5.5 to 6.0 million cars. This seems to be a reasonable estimate, given the state of public confidence resulting from high incomes and high capital gains. This level of sales, however, cannot provide a further stimulus; production in December was already up to an annual rate of 7 million cars.

Similar conclusions are reached by considering consumer credit. In November, credit was expanding at a rate of $1.5 billion. In December, the rate was still higher. This switch to credit buying helps to explain the drop in savings. It does not encourage an optimistic view of prospects, because credit is now in position to reverse again with depressing effects.

The best that ought to be assumed about consumption for 1959 is that it will tend to stay in line with income.

Implications for 1959

Both optimistic and pessimistic forecasts can be worked out on the basis of the foregoing. If one accepts the component estimates of those who express reasonably optimistic views, the implications of the resulting forecast are not particularly encouraging. For example, projecting the data in constant dollars, hold government purchases steady at the peak; let housing decline a little in accordance with the Commerce-Labor projections; tilt business investment upward in accordance with the McGraw-Hill survey; let the net foreign balance fall slightly as a result of increasingly competitive conditions throughout the Western world; hold inventory accumulation and consumer credit steady at estimated fourth-quarter rates. The result of these assumptions is a forecast of extraordinary stability through 1959 — with real gross national product holding just $4 billion above the fourth-quarter rate of $454 billion.

The projected increase in output of 1 percent over the two years from 1957 to 1959 is hardly an impressive advance. What the economy demonstrated in the last year and a half was more instability than strength.

With efficiency increasing, developments since the 1957 high have resulted in a decline of over a million in employment of workers by nonagricultural establishments. Unemployment has increased correspondingly. If output does not increase in the coming year, rising productivity and growth in the labor force will increase unemployment by another million.

The actual results might deviate from this in either direction, for reasons indicated above. In fact, it would be surprising if stability were possible for so long as a year under present conditions. New developments will continually produce tendencies to break away, either into new high ground or into another slump. Barring significant increases in government programs, the latter seems more probable. For there is nothing in stability to set off a new burst of confidence, but under stable conditions the constant accumulation of structures and equipment of all kinds tends to set in motion the forces of deflation.

If a new slump should get under way, all segments of the private economy would work together in aggravating its impetus. There is nothing in the picture to prevent another decline as sharp as that experienced last year, but longer lasting and with unemployment mounting to progressively higher peaks.

Unanimity in optimism based on theories of enduring prosperity and inevitable inflation cannot provide guarantees against adverse developments. The only sound approach to the future under present conditions is to be on the lookout for unpleasant surprises ahead. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Cigarette Sales

According to estimates published in *Business Week,* cigarette sales in 1958 totaled 424 billion, approximately 14.6 billion or 3.6 percent more than last year. This is the second consecutive year in which a record number of cigarettes was consumed and the fourth straight year in which sales exceeded the year before. With the exception of a modest gain for one nonfilter king-size brand, filter brands were entirely responsible for this year's increase in sales. Filter brands gained 23.1 percent from a year ago, whereas regular cigarettes declined 12.0 percent and "kings" dropped 7.1 percent.

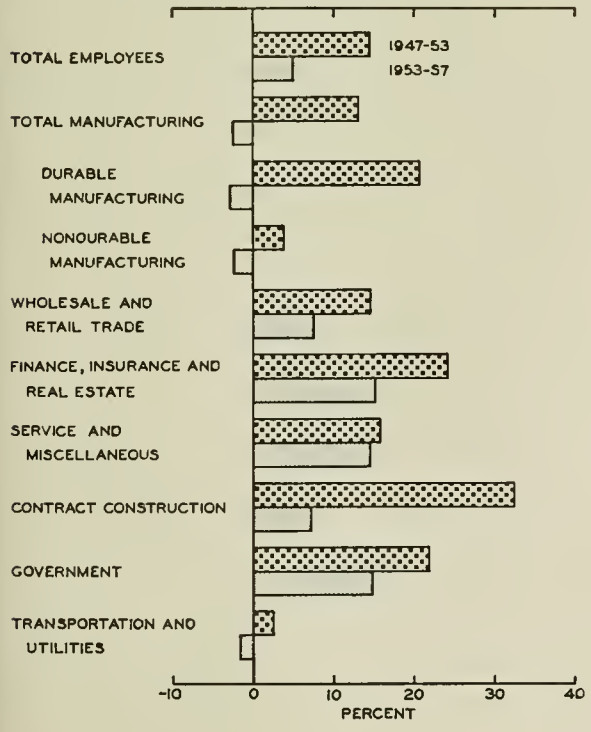
Since 1950, when filters accounted for less than 1 percent of the total domestic market, filter cigarette sales have continued to rise at a rapid rate. In 1956, filters outsold king-size cigarettes, and in 1958, sales amounted to 197.6 billion, or 46.6 percent of the total market. In contrast to previous years when all filter cigarettes gained or held ground, most of the growth came from a few brands in 1958, and a few others sustained losses.

Growth of Nonagricultural Industries

After World War II, the American economy first experienced a period of extremely rapid expansion of employment, then a period of expansion at a more moderate rate. The total number of nonagricultural employees in American industries averaged 52.2 million in 1957. This represents an increase of 20 percent from 1947, of which 15 percent occurred in the period between 1947 and 1953 and 5 percent from 1953 to 1957.

The accompanying chart indicates that all major industries expanded during the 1947-53 period, with contract construction, finance, insurance, and real estate, government, and durable manufacturing industries experiencing growth greater than 20 percent. Government and service industries actually expanded at a faster yearly rate between 1953 and 1957 than they did between 1947 and 1953. A redistribution of employees occurred in the period between 1953 and 1957; the number of employees in the manufacturing and transportation and public utilities industries declined whereas in all other industries employment expanded.

CHANGES IN NONAGRICULTURAL EMPLOYMENT, 1947-53 AND 1953-57



Source: Bureau of Labor Statistics.

Travel Patterns in 1957

The American public took 231 million trips during 1957, according to estimates of the Bureau of the Census. These trips lasted an average of five and one-half days, resulting in a total of almost 1.3 billion trip-days during the year. Visits to friends and relatives were found to be the most important reason for taking trips and accounted for 43 percent of the trip-days. Vacation, business, and other personal reasons accounted for 32 percent, 16 percent, and 9 percent respectively. The data showed that the third quarter of the year was the peak period for all travel, regardless of the reason.

The means of transportation most frequently used was the automobile, accounting for 82 percent of the total trip-days. Air, rail, and bus travel accounted for 13 percent. The seasonal pattern of travel found the low periods for automobiles and air transportation during the first and fourth quarters, whereas the second and fourth quarters were the low periods for bus and rail travel. the third quarter was uniformly the peak period for all means of travel, with 48 percent of automobile travel, 43 percent of bus travel, and 39 percent each of rail and air travel.

Meat Consumption

The Agricultural Marketing Service recently published a report, *Consumption Patterns for Meat,* based upon data obtained from the 1955 survey on food consumption by households. The data deal with the so-called "red" meats — beef, veal, lamb, mutton, pork, and their products. The survey shows that meat accounted for 25 percent of the average food budget, with a higher percentage in cities than on farms, primarily because city incomes were higher. Of all the meat consumed, beef and pork accounted for 70 percent, and slightly over half the total meat consumed was fresh or frozen cuts while the rest was in processed form — hamburger, sausage, frankfurters, and canned meats.

Higher-income families consume more beef, veal, and lamb than do lower-income families, and generally, they eat slightly less pork. In addition, higher-income families use more of the expensive cuts of beef such as steaks and roasts while such meats as stewing beef and sausage are more popular among low-income people.

The report gives general information showing to what extent families with higher incomes use their extra buying power to purchase more meat versus choosing higher-priced meat. For veal and lamb, the major effect was in a larger quantity purchased rather than in a higher price paid. In the case of beef, the price paid increased almost as much as the quantity. For pork, the higher-income families paid higher prices per pound and bought fewer pounds. For all meats combined, the effect of income was greater on price than on quantity bought.

ECONOMIC PROSPECTS FOR AGRICULTURE IN 1959

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Department of Agricultural Economics

Agricultural price and income prospects in 1959 are dominated by larger stocks of feed grains and wheat in storage and rising livestock production. These factors are offset, at least in part, by a strong and increasing demand for food. Some farm product prices are expected to sag below 1958 levels. A 5 to 10 percent drop in net farm income appears as the most likely possibility. Gross receipts will hold about steady, especially in the Corn Belt, but farmers will have to live with high and rising production costs.

Continued large feed supplies in 1959 will keep prices of No. 2 corn near $1.00 to $1.15 a bushel and other feed grains near 1958 levels. Prices for soybeans are closely tied to government loan rates. Prices will not rise above the loan rate, and if storage capacity is adequate, prices will not fall much below that rate.

Hog prices are expected to decline to the neighborhood of $14 to $16 a hundred as compared with averages of $18 to $20 in 1958. Cattle will average slightly below 1958. During the first six months of 1959 eggs will average slightly lower than during the same period a year earlier, but by the fall of 1959 they will be well above recent levels. Dairy prices will continue into 1959 without much change.

The general outlook in 1959 is for a continuing high output, increased marketings of livestock products, and somewhat lower prices for meat, especially hogs, but no general break in farm product prices.

Owing to increased off-farm earnings and continued migration out of agriculture, aggregate real purchasing power per capita of people in agriculture will be close to the near-record level established in 1958. This was about 13 percent above 1957 and the highest net income received by people in agriculture in any year since 1953.

Crop Yields, Costs, and Prices

Production costs per unit of output are expected to be a little higher in 1959. Aggregate farm production expenses increased about 6 percent from 1957 to 1958. Total farm output increased 8 percent, so costs per unit of production were slightly lower in 1958 than in 1957.

Although livestock production will increase in 1959, this will probably be more than offset by reduced crop production, thus resulting in slightly higher unit costs. Crop production in 1958 was at an all-time high, 11 percent higher than the previous record, first set in 1948 and matched in 1956 and 1957. The harvested acreage was the third lowest in twenty years. Planted acreage was the smallest in forty years, but yields were at record levels in many areas of the country and the all-crop production index for 59 crops was 118 with 1947-49 equal to 100.

This was a considerable rise from the 106 reached in 1948, 1956, and 1957 — three earlier record years. The feed grain production index reached 134; food grains, 117; oilseed crops, 183; and sugar crops, 123. This was the biggest production year on record for wheat, corn, soybeans, barley, sorghum grains, hay, popcorn, and tung nuts.

Without a government price-support program this record production would have forced prices considerably below current levels. Price supports prevented this decline but also resulted in a considerable expansion in storage stocks. By the summer of 1959 feed stocks will be at a new all-time high. Wheat in storage will be 1.3 billion bushels, more than a normal year's crop.

Other factors operating for higher prices and incomes in 1958 are not anticipated in 1959.

First, the record-breaking freezes in the South during the winter of 1957-58 destroyed some of the fruit and winter vegetable crops. In April, 1958, the index of fruit prices was 15 percent above 1957. The prices for oranges were double those of a year earlier.

Second, during the spring and summer the weather in the plains presented a different picture but it also boosted farm income. Abundant rainfall and moderate temperatures prevailed over a large part of the central plains area of the United States. The result was a bumper crop of feed and food crops including wheat. Government price supports helped to maintain income from these crops while high-level feed production and lush grazing conditions resulted in smaller livestock shipments to central markets. The result was the highest prices for cattle since 1952 and the highest prices for hogs since 1954.

Some of these factors could be carried over into 1959. The build-up in cattle herds probably will continue. Price supports for wheat and other storable crops could maintain prices near current levels through further accumulation of stocks.

Hog-Feed Cycle Lifting Supplies

The heavy run of hogs, expected to be up about 15 percent in 1959, will push down the average level of prices. By fall, hog prices are expected to decrease to the lowest levels since 1956 even though the hog-corn ratio is likely to remain above average (12.5 to 1) during most of the year. Even if hogs go to $12 a hundred, corn at $1 a bushel results in a 12 to 1 feeding ratio, which is near the long-time average ratio and profitable for most feeders. This is particularly true for those hog producers who are increasing the efficiency of their operation.

Each year from 1952 to 1958 the production of feed grain has exceeded consumption. From 1952 to 1956 the average annual increase in stocks was relatively small, 3 to 6 percent of the total crop. The increase in the feed year of 1957-58 was about 8 percent and in 1958-59 the increase is expected to be about 11 percent of total production. The expected carryover in the summer of 1959 of 75 million tons of feed grains will be the equivalent of about 43 percent of an average feed crop. It will constitute storable stocks sufficient to feed the average United States pig crop for an entire year. By 1960 the carryover may be equivalent to half a year's production.

As feed grain supplies have increased, prices have trended downward (see chart). In 1957-58 average prices for feed grain were about one-third lower than in 1951-52 and prices are expected to drift lower in 1959. This means a continued livestock-feed ratio favorable to heavy feeding of livestock. The number of grain-consuming animal units to be fed in the 1958-59 feeding year will be up about 6 percent. Furthermore, livestock will be fed liberally, thus further increasing the total supply of livestock products available to consumers. This increase in

the production of livestock is the main basis for the prediction of lower prices of livestock in 1959.

Other Livestock Products

In the beef cattle industry, 1958 was much like 1951, and 1959 may be like 1952. Beef cattle numbers increased by 4 million head in 1951 and by about the same in 1958. Prices of beef steers reached an all-time monthly high of $36.93 in the spring of 1951 and a monthly high of $29.90 in the spring of 1958. In both years prices were lower during the heavy fall run than they were in the spring. The year 1959 will differ from 1952, however, in some important respects.

We shall not have a subsiding wartime inflation in 1959 as we did in 1952. However, in the coming year beef-cattle producers will face more competition from hogs than they did in the earlier year. Probably in 1959 farmers and ranchers will again hold back cattle, perhaps more than the 4 million head they held back in 1958. Some of the cattle held back earlier will be available for market in 1959 and beef slaughter is likely to increase, especially in the fall. A relatively small increase in beef output combined with a substantially higher hog and broiler production is likely to result in some weakening of the price structure for meat.

Increases in demand constitute the one major strong factor in the agricultural picture. Strong consumer demand could move the increased livestock products into consumption without a general decline in prices. The 1957-58 recession apparently did not substantially weaken demand for farm products and a continued strong demand may prevent a more general decline in agricultural prices.

Dairymen did not share fully in the rise in farm income in 1958. Milk prices and production changed very little from levels of a year earlier. Dairymen did benefit from good crop yields and pastures and from higher prices for calves and cull cows. The dairy situation will continue with little change in 1959.

Rising Land Values and Property Taxes

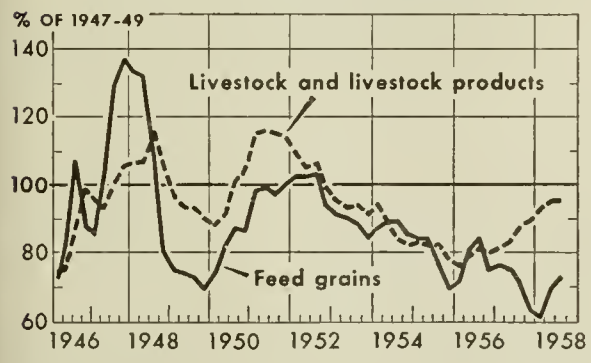
Prices of farm land rose generally in 1958. For the United States as a whole, prices rose about 6 percent during the year ending in November. Illinois land values rose about 5 percent during the same period. Current prices are high by past standards, but strong price-lifting forces still persist. These include needs for farm enlargement, demands for farm land for nonfarm purposes, and widespread, though not universal, fears of inflation.

Returns on farm real estate averaged 7 to 10 percent during the 1940's, but declined to 2 to 3 percent in recent years. The recent rates of return are about the same as in the "parity" period, 1910-14.

Average returns on all physical farm capital declined from 8 to 12 percent in the 1940's to 3 to 4 percent in recent years. This return, too, is about the same as in 1910-14.

Farm property taxes continue to rise as citizens demand more services and as local government expenses follow rising costs for materials, labor, and salaries. The property tax burden on farmers becomes very severe in taxing units where there is a large residential population.

FEED GRAIN PRICES LOW COMPARED WITH LIVESTOCK PRICES



Source: U. S. Department of Agriculture, *Agricultural Outlook Charts, 1959*, p. 12.

Summary

The cost-price squeeze in agriculture is expected to continue into 1959, perhaps becoming more severe because of rising costs and prices. Actually this is a continuation of the longer-term trend which has been going on for some time. The continuing technological revolution in agriculture is pushing food and fiber production to ever-increasing record levels. This is a type of cumulative change so sweeping that adjustments, rapid as they are, have been insufficient to bring income stability to agriculture.

Between 1938 and 1958 the man-hours worked in agriculture dropped by one-third. Output per man-hour more than doubled from an index of 66 in 1938 to 152 in 1958 (1947-49 = 100). The volume of sales per farm more than doubled. Using constant 1954 farm prices, the average farm products sold per farm climbed from less than $4,000 in 1938 to more than $9,000 in 1958. The larger commercial farms selling $10,000 worth of products or more a year are increasing in number, almost doubling in the twenty-year period, whereas the number of farms selling less than $5,000 worth of products in terms of 1954 prices has been reduced by almost one-half.

The heavy migration out of agriculture, which was temporarily slowed in 1957-58, will speed up again, resulting in about 1 million fewer farm families in 1960 than in 1950, a decline of about one-fifth. In addition substantial increases in off-farm incomes show that farm and city are becoming increasingly interdependent.

Set against this background, the prospects for 1959 and succeeding years are heavily dependent on the adjustments made in the farm economy as well as on price and income programs of the federal government. Feed grains and wheat are jointly tied to support levels and to the livestock economy. With such large stocks on hand, downward pressure on prices can be expected. But the government will be under heavy pressure to hold the line. Considering the size of government expenditures on agriculture, which totaled about $6.4 billion for loans and payments in 1958, other strong pressures are being exerted to cut down the size of government participation. The result for farm policy will be a standoff in the 1959 Congress and price supports will remain near current levels.

The economic prospect is for gross receipts near current levels, slightly lower livestock prices particularly for hogs, higher prices for farm inputs and rising production costs, with reduced net income from farming being balanced by migration and increasing off-farm income to maintain per capita real income of farm people in 1959 close to the near-record levels established in the past year.

LOCAL ILLINOIS DEVELOPMENTS

All major indexes of Illinois business activity, with the exception of consumer prices in Chicago, turned down in November. The largest declines were in bank debits for selected Illinois cities and coal production, with 14 percent each. Life insurance dropped 6 percent, and petroleum production decreased 4 percent.

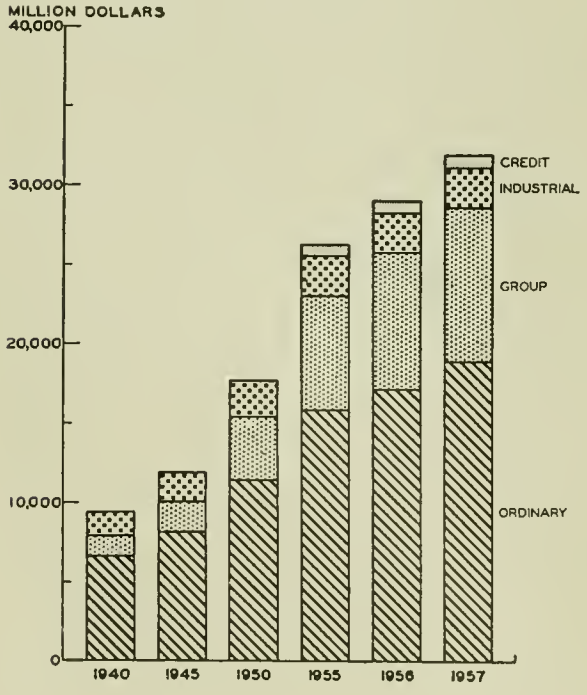
Comparisons with November, 1957, show increased activity in all indicators, with the exception of coal production, manufacturing employment, and petroleum production, which declined 13 percent, 9 percent, and 1 percent respectively. Construction contracts awarded increased 14 percent and gains of 3 percent were experienced in weekly earnings and life insurance sales.

Clerical Salaries in Chicago

The National Industrial Conference Board has released its 1958 Clerical Salary Survey report entitled *Clerical Salaries in 18 Cities*. The data show the median weekly salaries and the high and low salaries of the middle 50 percent range of the fourteen clerical job classifications, which varies from office boys and file clerks to executive secretaries and accountants. The report gives a word of caution, stating that the data were given voluntarily, and therefore, they do not necessarily represent a random sample. The survey warns that it is important to use the results only as a guide and in light of local prevailing policies and practices affecting clerical salary rates.

In Chicago, salary information was received from 67 establishments, of which about half were manufacturers. Of the 67 firms surveyed, 50 percent had fewer than 250 employees, but 75 percent of the data came from 19 firms with 1,000 employees or more. The report indicates that clerical salaries in Chicago, with the exception of those for accountants, compared favorably with the other seventeen major cities. Dictating machine transcribers, calculating machine operators, and bookkeeping machine operators have the most favorable salaries in comparison with the other cities.

LIFE INSURANCE IN FORCE



Source: Institute of Life Insurance.

The 1959 Highway Program

According to data recently released by the State Department of Public Works and Buildings, Division of Highways, a total of $300 million is proposed for the 1959 primary highway improvement program. This program consists of $200 million being spent for construction and right-of-way acquisition of interstate highways and $100 million for improvements on other primary but non-interstate highways. The federal government is supplying $190 million for these proposed improvements, State and local sources $72 million, and the Cook County Expressway bond issue $38 million.

The total estimated cost of projects listed for the ten Illinois districts for 1959 amounts to $476 million, or $176 million more than funds available. However, some of these projects will continue into 1960. Projects in District Ten (Cook County) have an estimated cost of $159 million, with construction on Interstate 94 and 90 accounting for slightly less than two-thirds of this amount. Another major highway construction project is located in East St. Louis, where an estimated $30 million will be spent on Interstate 70. About $42 million of construction is planned on Interstate 80 in the northern part of the State.

Giant Truck

Officials of the Southwestern Illinois Coal Corporation stated recently that they had purchased a new, giant, 80-ton diesel truck, built by LeTourneau-Westinghouse of Peoria, Illinois. The company states that it is the largest rubber-tired coal hauler in the country and is capable of hauling two railroad carloads of coal per trip or up to 100 tons of coal. It is powered by a 425 horsepower V-12 engine, and the length of the truck from bumper to bumper is 54 feet. The truck has 32-ply, 18 by 33 inch tires, which stand 5 feet, 9 inches high and cost $2,200 each. Drop-bottom doors operate by air pressure, allowing the big truck to be unloaded automatically in less than one minute.

Life Insurance in Force

Illinois ranked fourth in the nation in life insurance ownership in 1957, according to the Institute of Life Insurance. Illinois families owned slightly less than $32 billion of life insurance, represented by approximately 16.8 million certificates and policies. This record amount was an increase of 238 percent from 1940, an 81 percent rise from 1950, and a gain of 10 percent from 1956. However, the 1957 total was only 7.0 percent of the United States total as compared with 8.2 percent in 1940, indicating greater ownership growth in other parts of the country.

There has been a definite redistribution of policy types since 1940. Of the four categories of life insurance — ordinary, group, industrial, and credit — ordinary accounted for 59 percent of the total coverage in 1957, a drop from 70 percent in 1940. The proportion of industrial insurance declined from 16 percent in 1940 to 8 percent in 1957. On the other hand, group insurance more than doubled, from 14 percent to 30 percent (see chart). Credit insurance, little known a generation ago, rose to 3 percent.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$33,311[a]	1,100,109[a]	$541,525[a]		$15,155[a]	$16,312[a]
Percentage change from Oct., 1958	−18.3	−0.5	+3.3	+5	−14.0	+0.5
Percentage change from Nov., 1957	+57.3	−0.9	−7.8	−2	+0.1	+6.9
NORTHERN ILLINOIS						
Chicago	$24,963	837,452	$395,911		$13,805	$14,215
Percentage change from Oct., 1958	+6.6	+0.0	+3.8	+5	−14.1	+0.5
Percentage change from Nov., 1957	+75.2	+0.2	−7.3	−1	+0.0	+5.2
Aurora	$1,159	n.a.	$ 8,337		$ 70	$ 145
Percentage change from Oct., 1958	+5.8		−5.9	+12	−2.7	−4.5
Percentage change from Nov., 1957	+48.8		−1.8	+36	+3.7	+17.7
Elgin	$ 247	n.a.	$ 5,777		$ 46	$ 133
Percentage change from Oct., 1958	−85.9		−3.6	n.a.	−7.1	+20.2
Percentage change from Nov., 1957	−26.5		−10.4		+8.3	+18.2
Joliet	$ 537	n.a.	$ 9,909		$ 83	$ 109
Percentage change from Oct., 1958	−85.8		−1.1	+6	−7.2	+3.5
Percentage change from Nov., 1957	−37.8		−18.2	−7	+3.0	+11.6
Kankakee	$ 322	n.a.	$ 5,043		n.a.	$ 53
Percentage change from Oct., 1958	+2.9		+2.7	n.a.		0.0
Percentage change from Nov., 1957	−50.4		−9.8			+6.3
Rock Island-Moline	$ 732	24,486	$11,335		$ 110[b]	$ 164
Percentage change from Oct., 1958	−29.7	−1.3	+11.0	n.a.	−6.5	−1.7
Percentage change from Nov., 1957	+1.8	+6.9	+3.0		+2.4	+16.1
Rockford	$1,176	45,695[c]	$16,948		$ 173	$ 222
Percentage change from Oct., 1958	−3.8	+7.5	+4.5	+1	−9.2	−2.0
Percentage change from Nov., 1957	+1.1	+3.9	−14.7	−10	−4.0	+14.4
CENTRAL ILLINOIS						
Bloomington	$ 130	8,151	$ 5,449		$ 65	$ 104
Percentage change from Oct., 1958	−85.6	−4.3	−0.3	n.a.	−21.0	−4.0
Percentage change from Nov., 1957	+5.7	+1.0	−5.9		−2.5	+18.0
Champaign-Urbana	$ 261	13,086	$ 8,346		$ 77	$ 120
Percentage change from Oct., 1958	−56.7	+3.0	+0.1	n.a.	−18.1	−10.2
Percentage change from Nov., 1957	+37.4	+9.7	−5.8		+11.3	+31.3
Danville	$ 230	13,243	$ 5,835		$ 49	$ 62
Percentage change from Oct., 1958	+42.9	+5.3	−0.0	+9	−7.4	−17.7
Percentage change from Nov., 1957	+93.3	+6.1	−13.3	+3	+0.1	+9.2
Decatur	$ 435	30,863	$11,323		$ 102	$ 120
Percentage change from Oct., 1958	−87.2	−7.5	+3.8	+7[c]	−32.5	−0.4
Percentage change from Nov., 1957	−32.9	−13.2	−10.1	+11[c]	−16.7	+24.8
Galesburg	$1,019	8,640	$ 4,583		n.a.	$ 58
Percentage change from Oct., 1958	+29.8	−7.2	−0.7	n.a.		+25.0
Percentage change from Nov., 1957	+870.5	−1.5	+1.2			+60.7
Peoria	$ 705	37,758[c]	$16,534		$ 213	$ 291
Percentage change from Oct., 1958	+68.7	−10.9	+2.0	+6[c]	−16.2	0.0
Percentage change from Nov., 1957	+69.9	−26.6	−10.2	−6[c]	−0.1	+13.0
Quincy	$ 192	9,640[c]	$ 5,020		$ 46	$ 72
Percentage change from Oct., 1958	−66.1	−0.3	+1.5	+1	−12.8	−4.0
Percentage change from Nov., 1957	−57.1	−12.7	−0.7	−6	+6.4	+8.3
Springfield	$ 580	36,982[c]	$13,328		$ 139	$ 287
Percentage change from Oct., 1958	−36.4	+1.2	+5.2	+2[c]	+2.4	+7.9
Percentage change from Nov., 1957	+205.3	+6.3	−11.9	−2[c]	+20.5	+39.8
SOUTHERN ILLINOIS						
East St. Louis	$ 23	12,215	$ 8,593		$ 140	$ 73
Percentage change from Oct., 1958	−80.3	−5.2	+0.8	n.a.	−16.0	−4.0
Percentage change from Nov., 1957	−65.7	+4.2	−9.8		−0.3	+34.3
Alton	$ 508	12,466	$ 4,724		$ 38	$ 38
Percentage change from Oct., 1958	+719.4	−9.5	+1.5	n.a.	−9.9	+2.8
Percentage change from Nov., 1957	+1,273.0	−0.6	−5.8		+6.2	+20.9
Belleville	$ 92	9,433	$ 4,531		n.a.	$ 45
Percentage change from Oct., 1958	−63.9	+3.6	+0.3	n.a.		−8.0
Percentage change from Nov., 1957	+21.1	+1.5	−9.7			+15.4

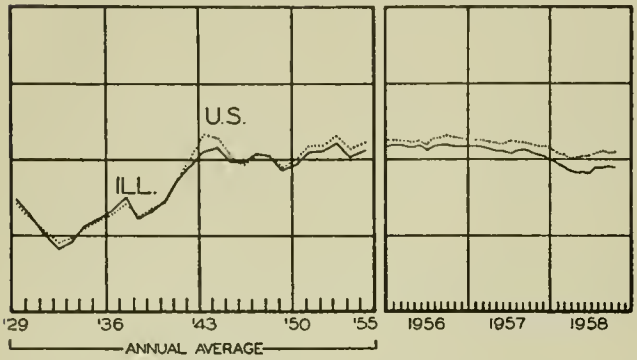
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for October, 1958. Comparisons relate to September, 1958, and October, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending November 14, 1958, and November 15, 1957.

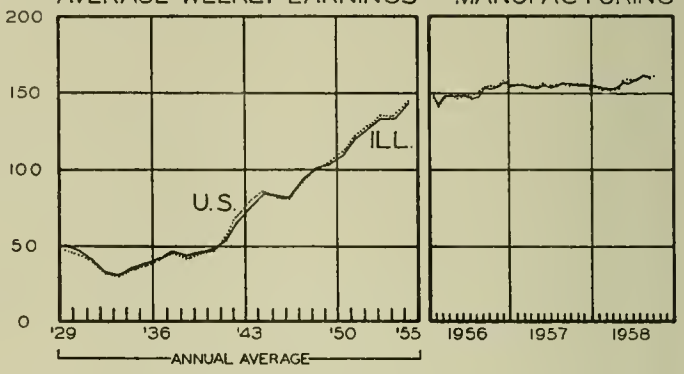
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

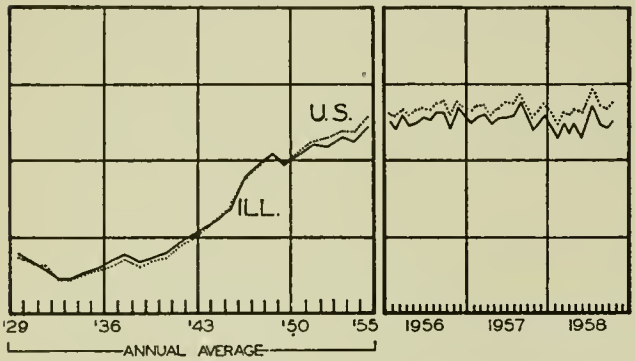
EMPLOYMENT MANUFACTURING



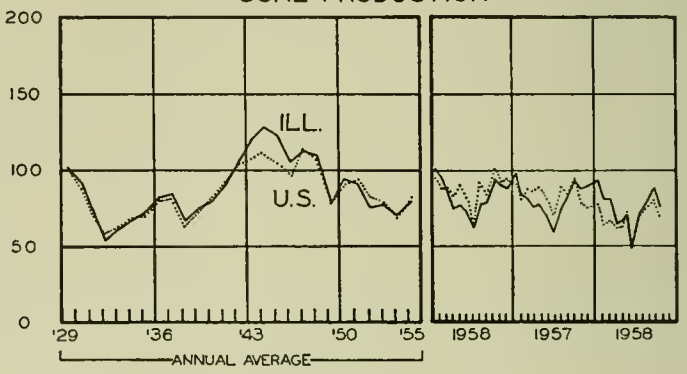
AVERAGE WEEKLY EARNINGS – MANUFACTURING



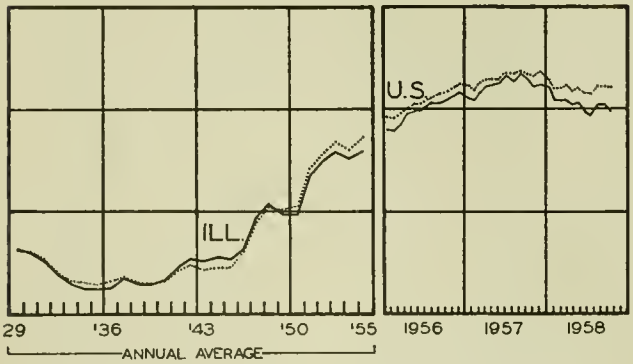
DEPARTMENT STORE SALES



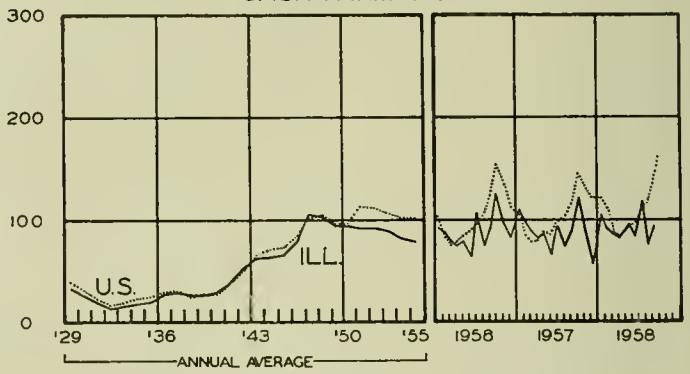
COAL PRODUCTION



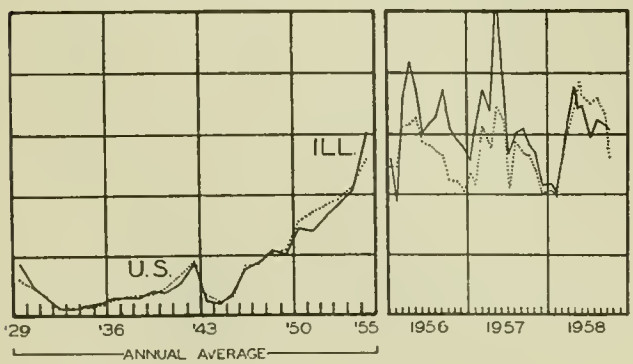
BUSINESS LOANS



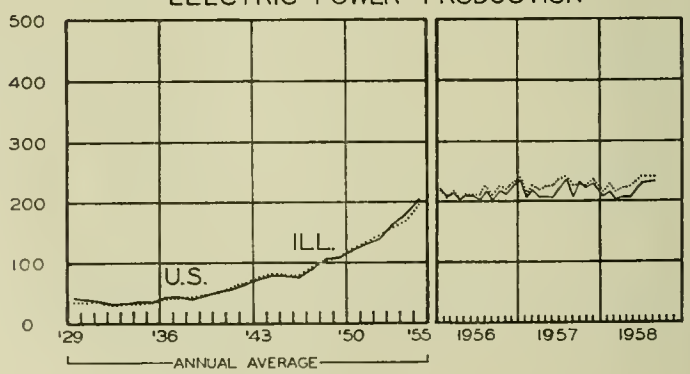
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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VOLUME XVI FEBRUARY, 1959 NUMBER 2

HIGHLIGHTS OF BUSINESS IN JANUARY

Business continued to improve slowly in January. Industrial production, at 143 percent of the 1947-49 average, was up a point from the December adjusted index. Steel production averaged about 2.1 million tons a week, up 40 percent from January a year ago and 5 percent above the December rate. Auto assemblies were down somewhat more than seasonally, but paperboard and electric power held steady at levels well above January, 1958. Most other weekly series showed little gain or actually weakened during the month, even after allowing for seasonal influences. For example, adjusted department store sales were back at the November level of 137 percent of the 1947-49 average and down 7 points from December.

The improvement in business has not brought a corresponding reduction in unemployment. The number of unemployed workers increased by 600,000 to 4.7 million in January. Adjustment for seasonal influence leaves the total at 4.1 million, down only slightly from the adjusted total for December.

Auto Output and Sales Down

Passenger-car assemblies in January amounted to 545,757 units, 8 percent below December but 11 percent above the first month of 1958. The decline from December was due to a 7 percent drop in Ford and a 15 percent cut in General Motors output.

Retail sales in January are estimated at slightly under 430,000 cars, 12 percent below December but 12 percent above January, 1958. The decline from the preceding month was more than the normal seasonal drop of about 10 percent and was attributed to a shortage of Chrysler Corporation cars resulting from a strike at Pittsburgh Plate Glass Company plants, chief source of automobile glass for Chrysler. Nearly all the gain in American-made cars over the year-earlier month, when sales were near the recession low, was due to sales advances by Ford, American Motors, and Studebaker-Packard Corporation. Inventories in the hands of retailers approached 700,000 by the end of January and are expected to rise further in February.

Construction Stays High

New construction activity declined 9 percent in January to $3.7 billion. This was about the normal seasonal decline, and it left the total 10 percent above the previous record high for the month set in 1958.

Private construction outlays of $2.6 billion were down 10 percent from December, 1958, but gained 8 percent on the year-earlier month. The biggest increase over January, 1958, took place in residential building, up 23 percent. Nonresidential building dropped 12 percent, almost entirely due to a 37 percent decline in industrial construction.

Spending for public construction was off 7 percent from December, but it amounted to 15 percent more than in January a year ago. Highways, public housing, and military facilities were the categories that experienced the largest gains over the year.

Sales, Inventories Rise

Sales by manufacturing and trade firms increased $1.3 billion to $57.4 billion in December on a seasonally adjusted basis. The total exceeded the year-earlier figure by $4.0 billion. Shipments by manufacturers went up $500 million in the month to $28.0 billion and retail sales rose $600 million to an adjusted $17.6 billion, but wholesalers experienced little gain. Both durables and nondurables participated in the expansion.

The book value of inventories held by these firms was raised $200 million to $85.2 billion, with additions to automobile stocks in the hands of retail dealers more than offsetting small inventory reductions by manufacturers and wholesalers.

New orders received by manufacturers rose to $28.1 billion in December, a gain of $300 million on an adjusted basis. All of the increase took place in industries producing nondurable goods.

More Consumer Debt

Consumers raised their installment debt in December by $306 million on a seasonally adjusted basis, the largest monthly increase in two years and nearly twice that of the preceding month. About half of the advance was in automobile paper, but other consumer goods loans and personal loans also expanded. With $33.9 billion outstanding at the end of 1958, total installment debt was down $230 million from the end of 1957.

After allowance for seasonal factors, noninstallment debt rose only $37 million in December, an adjusted decline in charge accounts of $7 million being more than offset by an increase of $44 million in single-payment loans. Total noninstallment debt of $11.2 billion was up $521 million from the end of 1957.

Total consumer debt increased at an annual rate of $4.0 billion, about the same as the average of the peak years 1955-57.

THE BALANCED BUDGET FOR 1960 · · By Otto Eckstein · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Pressure on Interest Rates

Bankers have been almost unanimous in recent weeks in predicting further, though perhaps moderate, increases in interest rates. Their views reflect in part the prevailing optimism and anticipation of continuing inflation in the economy as a whole. Although these underlying views may be mistaken, the decisions of the bankers themselves are so important with respect to interest rates that any such concerted expression of opinion warrants serious attention.

Discussions of money-market prospects cite widely varying reasons for arriving at the same basic conclusion. They range from rising costs of bank operation to esoteric interpretations of monetary and fiscal policy. Most have some regard to changes in the demand for money but often just assume that it will be expanding. Ways of thinking evidently tend to conform to a fashionable pattern, as they do in the security markets.

No Lack of Funds

In spite of the recession, 1958 turned out to be a good year for banks. Total resources and deposits rose sharply and net profits were generally higher.

The recession was in a way responsible for these results. Early in the year, the Federal Reserve was pushing a vigorous easy-money policy. It reduced reserve requirements, cut the discount rate in half over a six-month period, and expanded its own credit by moderate purchases of government securities. These actions opened the door to a very large increase in bank assets and in the money supply. Commercial bank investments and deposits moved up together, rising in each case by about $15 billion.

The really large expansion of investments was in securities. Holdings of governments increased almost $10 billion within a year. They roughly recovered the high of late 1954, erasing all the sell-off of the preceding three years. Other security holdings also increased. In contrast, loans increased only moderately. Business loans as such did not increase at all because business was seeking to liquidate loans and inventories; but other loans, which include real estate, consumer, and securities loans, showed a further expansion of several billion.

On the liability side, the expansion was concentrated in time deposits; an accelerated upsurge lifted them almost $10 billion within a year. Demand deposits rose about half as much.

By midyear, after these changes were well along toward the year-end positions, business began to recover and the Fed was forced to change its policy. There were some belated efforts to restrict reserves, but the restrictive policy was not severe, partly because of the need to support heavy government financing.

At the end of the year, the banks were in a reasonably liquid position. They were quite willing to expand loans and could readily take care of all foreseeable borrowers' needs. They could rediscount at a favorable rate or let go of governments, as they did in 1955 and 1956, and thus leave the problem of government finance to the Treasury and Federal Reserve. Borrowers' demands, however, were not expanding so enthusiastically as to call for major resort to these expedients.

Business Is Well Heeled

It may seem anomalous to project an increase in interest rates when there is a lack of borrowers rather than of loanable funds. Part of the explanation lies in the fact that business borrowers are expected even if they are not immediately present. This expectation derives from a rather complicated chain of reasoning, including the following major links: Business will have to rebuild inventories; this will increase production; higher rates of production will stimulate a rise in fixed investment; and expanded needs for both working and fixed capital will again tighten money and capital markets.

This sounds reasonable but from beginning to end is rather farfetched. Most industries have all the inventories and capacity they need. Now that auto inventories have been rebuilt, the only place where a case for inventory accumulation can be made is in steel, and there the need is temporary, deriving from fear of a strike at midyear. The steel industry has been using this threat to the full advantage of immediate sales. It is estimated that current rates of operation above 80 percent of capacity will increase steel inventories at a rate equivalent to about 10 percent of total output, or about a million tons a month. Any higher rate temporarily achieved will make for a sharper letdown after the threat passes.

As for a new capital boom, it is unlikely that the steel industry will delude itself into expanding by reason of the demand it has temporarily borrowed from the future. It would gain, of course, if other industries decided to expand and thus raised steel requirements for new plant and equipment. But other industries have no incentive to expand just because steel production is higher. Their concern is with demand for their own products, and their decisions will turn upon direct experience rather than any general indicators of over-all production.

Furthermore, there is nothing to indicate that a moderate increase in inventory accumulation or in fixed capital expansion will impose large new financial requirements. By the fourth quarter of 1958, corporate profits had recovered earlier peak levels, and with depreciation charges at a record high, gross corporate saving had also achieved a new peak. Corporations were thus able to improve their liquidity in the absence of inventory liquidation and with capital outlays holding firm at a level below the peak but still relatively high.

In other words, the cash-flow position of corporations has reversed. Early last year, corporations were suppliers of funds in support of personal income. Now they are net withdrawers of funds from the income stream. They can,

(Continued on page 8)

A 20TH-CENTURY INDUSTRY: OFFICE MACHINES

The enormous growth in American business during the past century has brought about the concomitant development of the office equipment industry. Today modern business machines handle many tasks which before the twentieth century were often done by hand.

Many of today's machines were developed in the late 1800's but did not come into general use until this century. For example, the typewriter was invented in 1864; the cash register, in 1879; the addressing machine, in 1870 (by a Lens, Illinois, inventor); the dictating machine, in 1887; and the tabulating machine, in 1887. The first known adding machine was the ancient abacus, but patents for an automatic adding machine were taken out in America in 1872.

Although many of the methods of office work have remained basically the same since the development of these instruments, the total volume of work has increased tremendously because of the enlargement, and consequently greater complexity, of business organizations. To offset this, management has turned to greater use of office machinery to process data more quickly and efficiently and to reduce the possibility of error.

A Growing Industry

The office equipment industry today consists of firms making many different products, such as typewriters, adding and calculating machines, addressing equipment, postage meters, and automatic data-processing machines.

Because of the diversity of products manufactured, the exact size of the industry is not easily determined. Value of shipments in 1957 exceeded $1.2 billion. This total, however, is believed to be conservative because of the exclusion of many office machines manufactured as secondary products. The industry has about 400 factories, with more than 170 in the Middle Atlantic and New England states. The North Central states follow with about 160 plants, of which half are located in Illinois. The total employment of the industry is estimated at nearly 100,000.

The level of office machinery production tends to be related to general business activity. When economic activity slackens, sales of machinery are often deferred and older machinery is repaired or overhauled. The general expansion of the postwar economy has led to new highs in total value of shipments for most kinds of office machines. Part of this rise stems from price increases, but much of it represents higher production levels. Between 1947 and 1957, shipments of check-handling machines increased 172 percent to $11 million; accounting and bookkeeping machines, 149 percent to $125 million; calculators, 55 percent to $58 million; and duplicators, 87 percent to $27 million. Some machines have not risen as rapidly in dollar volume in this period, for example, adding machines (18 percent) and autographic registers (26 percent).

One of the more recent developments in business has been the introduction of data-processing systems which make use of electronic computers. These machines, which sort, classify, or calculate desired information from prepared data, are now the fastest growing products of the industry. They consist of two principal types: analog and digital computers. Both have been commercially available for only a few years. Analog computers have been valuable in solving special problems, such as control of production equipment. Digital computers have been used to obtain answers to sales and inventory problems.

The Typewriter — An Office Mainstay

The typewriter is a basic office machine and is the most widely produced office machine today. The number of typewriters made (1.6 million in 1957) exceeded by more than five times that of adding machines, the second largest in terms of total units manufactured. Portable typewriters accounted for 58 percent of total typewriter unit volume; but it is believed that only a small proportion of portables are used in business.

The increasing use of electric typewriters by modern business has gradually cut into the production of standard manual machines. For example, between 1953 and 1957 production of electric typewriters doubled to 220,000 units, whereas manual nonportable types dropped 63,000 to 467,000 units. Although the latter type outsold the electrics 2 to 1 in 1957, electric typewriters accounted for more than half of the combined dollar value of the two.

Office Machinery in This State

Illinois is among the leading states in the production of office machines. The State probably ranks about third, after New York and Connecticut. Illinois is unquestionably the leader in the Midwest in the manufacture of typewriters, computing and related machines, industrial scales, mimeographs, and addressing machines. It is estimated that altogether Illinois produces approximately one-tenth of the nation's total value of office machinery.

Most of the industry in the State is located in the Chicago metropolitan area. Of the estimated 80 plants in the State, only about a dozen are downstate. More than 9,000 of the estimated total of 10,300 employees in the State work in Chicago-area factories.

Although Illinois produces only a minor share of the nation's volume of typewriters, it still ranks third, since New York and Connecticut produce more than three-fourths of the total. The State annually turns out typewriters valued at about $3 million; almost all production is confined to three plants, the largest being Allen Business Machines of Woodstock.

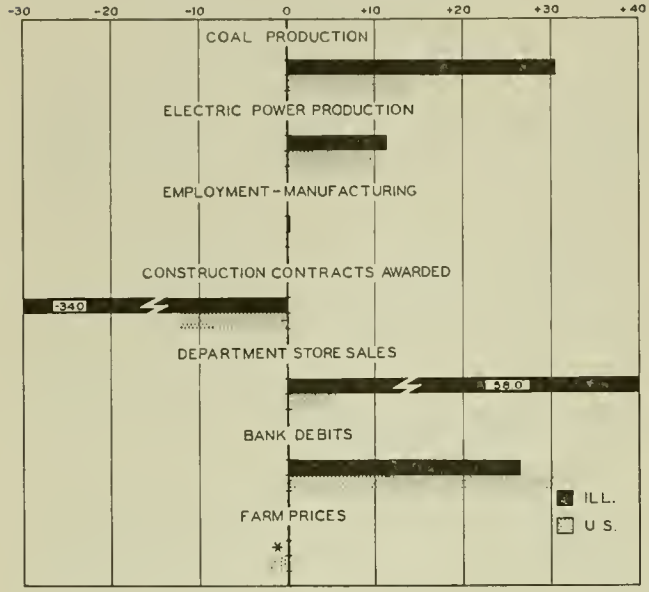
Illinois has the distinction of having the firm which invented in 1887 the first practical duplicating machine, the A. B. Dick Company, of Niles. It is the State's largest manufacturer of copying and reproducing equipment. This company, with Ditto, Incorporated, of Lincolnwood, produces about 20 percent of the national total of duplicating equipment and supplies.

The office machine industry will have a broad potential market as long as the past trend toward increased clerical loads continues. The future will probably bring greater use of electronic computers for complex problems in the larger organizations and even in the middle-sized firms as smaller, more economical machines become available.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1958, to December, 1958



* No change.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1958 (1947-49 =100)	Percentage change from Nov. 1958	Percentage change from Dec. 1957
Electric power[1]	245.8	+11.3	+ 7.8
Coal production[2]	100.3	+30.6	+12.1
Employment—manufacturing[3]	94.8	+ 0.4	− 6.4
Weekly earnings—manufacturing[3]	162.5[a]	+ 1.5	+ 4.4
Dept. store sales in Chicago[4]	125.0[b]	+ 5.0	+ 3.3
Consumer prices in Chicago[5]	127.0	− 0.3	+ 1.1
Construction contracts awarded[6]	202.9	−34.0	− 4.6
Bank debits[7]	219.3	+26.5	+12.0
Farm prices[8]	83.0	0.0	0.0
Life insurance sales (ordinary)[9]	338.2	+17.0	+ 6.0
Petroleum production[10]	128.7	+ 4.5	+ 1.0

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] November data; comparisons relate to October, 1958, and November, 1957. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1958	Percentage change from Nov. 1958	Percentage change from Dec. 1957
	Annual rate in billion $		
Personal income[1]	359.3[a]	− 0.3	+ 3.1
Manufacturing[1]			
Sales	336.0[a]	+ 1.8	+ 4.9
Inventories	49.2[a, b]	− 0.2	− 8.2
New construction activity[1]			
Private residential	19.3	− 7.8	+17.6
Private nonresidential	15.4	− 7.0	− 6.6
Total public	13.6	−14.4	+10.8
Foreign trade[1]			
Merchandise exports	19.2[c]	− 0.2	− 2.6
Merchandise imports	13.1[c]	− 4.6	+ 4.4
Excess of exports	6.1[c]	+10.9	−14.8
Consumer credit outstanding[2]			
Total credit	45.1[b]	+ 3.7	+ 0.6
Installment credit	33.9[b]	+ 2.2	− 0.8
Business loans[2]	31.4[b]	+ 2.7	− 2.5
Cash farm income[3]	n.a.		
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	142[a]	+ 0.7	+ 5.2
Durable manufactures	152[a]	0.0	+ 4.1
Nondurable manufactures	136[a]	+ 0.7	+ 7.1
Minerals	123[a]	0.0	0.0
Manufacturing employment[4]			
Production workers	96	0.0	− 4.4
Factory worker earnings[4]			
Average hours worked	101	+ 0.8	+ 2.0
Average hourly earnings	165	+ 0.9	+ 4.3
Average weekly earnings	166	+ 1.7	+ 6.4
Construction contracts awarded[5]	230	−12.0	+15.1
Department store sales[2]	144[a]	+ 5.1	+ 4.3
Consumer price index[4]	124	− 0.2	+ 1.7
Wholesale prices[4]			
All commodities	119	0.0	+ 0.6
Farm products	91	− 1.5	− 2.1
Foods	109	− 0.6	+ 1.3
Other	127	+ 0.3	+ 0.9
Farm prices[3]			
Received by farmers	91	− 2.2	+ 1.1
Paid by farmers	123	0.0	+ 2.5
Parity ratio	80[d]	− 1.2	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for November, 1958; comparisons relate to October, 1958, and November, 1957. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1959 Jan. 31	1959 Jan. 24	1959 Jan. 17	1959 Jan. 10	1959 Jan. 3	1958 Feb. 1
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,425	1,334	1,382	1,366	1,403	1,353
Electric power by utilities mil. of kw-hr	13,151	13,394	13,324	13,554	12,364	12,238
Motor vehicles (Wards) number in thous.	145	152	159	156	112	123
Petroleum (daily avg.) thous. bbl.	7,107	7,194	7,087	7,052	7,122	6,842
Steel 1947-49 =100	126	119	123	121	119	85
Freight carloadings thous. of cars	583	554	586	550	468	550
Department store sales 1947-49 =100	106	105	116	121	104	92
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.5	119.6	119.4	119.3	119.3	118.9[a]
Other than farm products and foods 1947-49 =100	127.4	127.4	127.3	127.3	127.2	126.1[a]
22 commodities 1947-49 =100	84.7	85.3	85.2	85.6	85.6	84.4
Finance:						
Business loans mil. of dol.	30,275	30,414	30,666	30,825	31,418	30,638
Failures, industrial and commercial number	322	296	294	321	169	326

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for January, 1958.

RECENT ECONOMIC CHANGES

Housing Starts

The seasonally adjusted rate of private nonfarm housing starts continued upward in December, despite a drop of 10,500 in the actual number of private starts during the month. The decline brought the number of private units started in December to 89,500, only 400 units below the 1954 record for the month. This represented a seasonally adjusted annual rate of 1,430,000 units, an increase of 100,000 over November.

For the year, new starts on private homes totaled 1,130,600 units — a gain of 14 percent over the 1957 level of 992,800. The year-to-year advance was due mainly to a sharp upturn in homes begun under Federal Housing Administration assistance, which accounted for 26 percent of privately financed starts last year, compared with only 17 percent in 1957.

Publicly owned housing put under construction in 1958 came to 67,100 units. Thus the total number of nonfarm housing starts, both public and private, rose to 1,197,700 units in 1958, the highest since 1955.

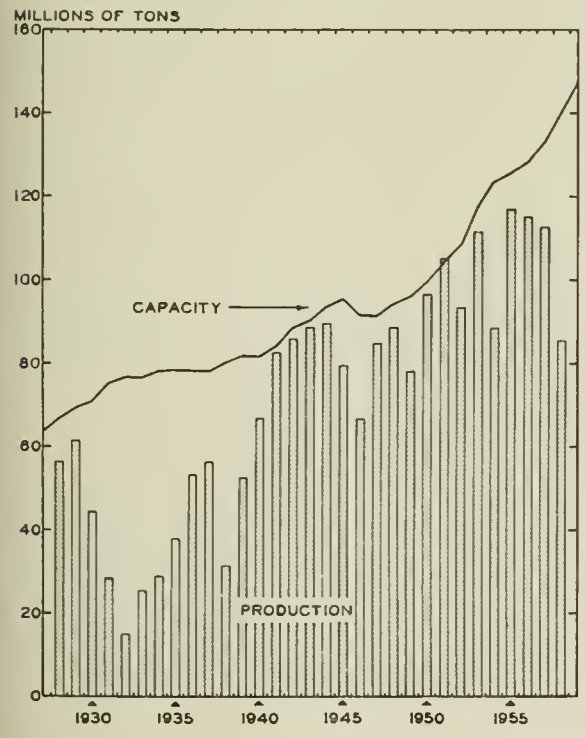
Steel Production

The American Iron and Steel Institute reported that steelmaking furnaces operated at an average of 60.6 percent of capacity during 1958, compared with 84.5 percent in the previous year.

Industry output for the year amounted to 85.3 million net tons, the lowest level since 1949 when only 78.0 million tons were produced. The industry's capacity rose from 140.7 million tons per annum at the beginning of 1958 to a record high of 147.6 million tons for the new year. As a result the gap between capacity and actual production continued to expand (see chart).

Output showed some improvement at the year end. Production in each of the last three months was at a rate in excess of 70 percent, and fourth quarter production of 26.1 million tons was the best for any three-month period since the third quarter of 1957, when the industry turned out 27.1 million tons.

STEEL CAPACITY AND PRODUCTION



Source: American Iron and Steel Institute.

Gross National Product

The nation's total output registered a 3 percent gain in the final quarter of 1958. Gross national product reached an annual rate of about $453 billion. Further increases in consumer spending and government purchases and an end to inventory liquidation were the main factors in the GNP advance during the fourth quarter.

The increase in the last quarter helped lift the value of GNP for the year to about $437 billion, off 1 percent from the 1957 record. After allowing for higher average prices, the volume of output for the year was down about 3 percent.

Freight Carloadings

Revenue freight carloadings during January fell behind year-earlier levels. In the first month of 1959 loadings averaged 539,000 per week, compared with 541,000 per week in January, 1958.

For the year 1958, freight carloadings amounted to about 30.2 million cars, 5.3 million, or 15 percent, below 1957. Shipments in all product classes except grains shared in the decline. The largest cutbacks occurred in the shipments of coke and ore which declined 40.6 and 39.0 percent, respectively. The decreases in all other commodity classes ranged from 7.3 percent for forest products to 18.2 percent for coal. Probably most significant, however, was the reduction of 13.2 percent in the twelve months' total for the miscellaneous class, which includes, among other things, all manufactured goods.

Business Failures

Despite the general recovery in economic activity during the second half of the year, business failures rose to a postwar high in 1958. Total failures amounted to 14,964, up almost 9 percent over the previous year's level of 13,739. All groups of businesses showed more failures last year than in 1957. However, manufacturing and wholesaling were up more than others. The Dun and Bradstreet failure index, which lists apparent annual failures per 10,000 listed firms, rose to 55.9 in 1958, compared with 51.7 in 1957.

Data on liabilities indicate that in 1958 the average bankrupt firm went out of business owing its creditors approximately $49,000, whereas in 1957 liabilities averaged about $45,000 per firm.

Unemployment

The current business recovery has failed to bring the improvement in employment that followed the two earlier postwar recessions. In addition, the number of jobless reached a higher level and has been more persistent. In the last three months unemployment resumed its upward movement and reached 4.7 million in mid-January.

Census data, in thousands of workers, are as follows:

	Jan. 1959	*Dec. 1958*	*Jan. 1958*
Civilian labor force	67,430	68,081	66,732
Employment	62,706	63,973	62,238
Agricultural	4,693	4,871	4,998
Nonagricultural	58,013	59,102	57,240
Unemployment	4,724	4,108	4,494
Seasonally adjusted rate	6.0	6.1	5.8

THE BALANCED BUDGET FOR 1960

OTTO ECKSTEIN

Assistant Professor of Economics, Harvard University

President Eisenhower, much to the surprise of most observers, submitted a balanced budget to the Congress. How was this "miracle" accomplished? Is it a realistic budget? What will a Democratic Congress do to it? To these questions we shall try to provide some answers beginning with what happened in fiscal 1959.

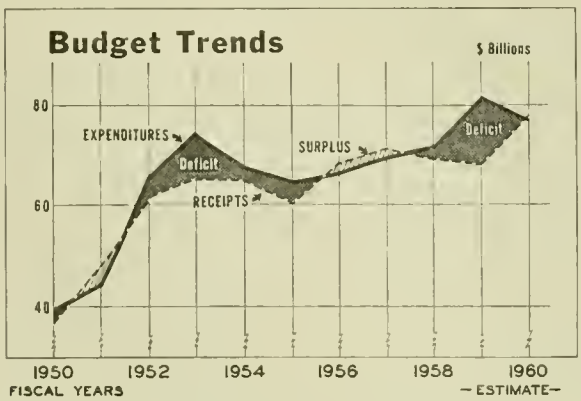
The current budget is expected to wind up with a deficit of $12.9 billion for the fiscal year ending June 30, 1959. The preceding year saw a deficit of only $2.8 billion, despite the fact that it included the worst part of the recession (see Chart 1). This is due largely to the time lag on tax receipts, particularly of corporation income taxes, and the slowness with which recession measures to stimulate expenditures take place; expenditures for fiscal 1958 were largely determined by the economy wave of the preceding summer.

The budget submitted for fiscal 1959 also showed a net balance. The enormous deficit which is now expected for the current year can be explained as follows: First, revenues fell short of the estimated total by $6.4 billion because of the recession. Second, expenditures exceeded the estimates by $7.0 billion. Disregarding minor items, this rise may be attributed to several important items. Recession-induced expenditures for housing, unemployment benefits, and speeded-up public works cost an additional $2.5 billion; the enormous agricultural crops led to astronomical price-support costs which were $2.2 billion higher than expected, with the total agricultural program exceeding $7 billion; and a one-time expenditure of $1.4 billion is being requested to strengthen the capital position of the International Monetary Fund. Thus, of the $7.0 billion increase in expenditures, no more than $2.5 billion can be attributed to the recession.

How Balancing the Budget Is Accomplished

The swing of $13 billion from deficit to balance, which the President's new program requires, is based on several assumptions. First, tax receipts are expected to be higher. Revenue yields from existing taxes are estimated to rise to the levels that a high-level economy would yield, a rise of $8.4 billion; this assumes continued steady recovery to GNP levels of $480 billion by December, 1959. In addition, despite current allusions to the possibility of tax cuts, $700 million is expected to be collected from increases in tax rates, including higher gasoline and aviation fuel taxes, higher taxes on life insurance companies, and the closing of some loopholes.

CHART 1



Source: Executive Office of the President, Bureau of the Budget.

Second, proposed new policies and rearrangement of accounts will effect budget improvements. An extra $600 million is expected to be collected from higher charges for government services, particularly higher postal rates and higher interest charges on government loans. Another $600 million is to be squeezed out of a new policy of selling assets. Moreover, $400 million of housing mortgages now held by FNMA may be swapped for privately held government bonds selling at discounts and $200 million may be "realized" from an extraordinary liquidation of loans of the Export-Import Bank, since the federal budget, unlike the income statement of a private business, is affected favorably by converting assets into cash. In addition, aviation gas revenues that had been earmarked for the highway trust fund are to be turned back to the regular budget, while expenditures for forest roads are to be shifted into the trust fund; this saves nearly $100 million.

Third, some expenditure decreases are expected. Such temporary recession expenditures as the extension of unemployment benefits and special purchases of low-cost housing mortgages will terminate if new legislation is not enacted, saving $800 million. Finally, other expenditures will drop by $1.8 billion, the major decline being the nonrecurrent contribution to the IMF, with some supplementary cuts in the military assistance program and in the acreage reserve program of the soil bank. There are some partly offsetting increases in interest costs, public works, and the new education programs.

The President's Expenditure Program

With the exceptions noted, the President's program is simply a "freeze" of the previous expenditure levels. Even at the smallest level of specific programs within agencies, most of the items have almost identical cost estimates for 1959 as for 1960. Although some programs, particularly the military, are undergoing a technological revolution which is not reflected in the figures, every budget tends to be very similar to its predecessor because of the continuity of programs. But in this instance it is clear that an across-the-board freeze was employed. For example, the various medical research programs of the Public Health Service for cancer, heart disease, arthritis, and mental health, which have been rising rapidly, all level off in 1960. This means that little evaluation of the relative priorities was carried out. Programs that were large lost little; many new and growing programs were stunted. Table 1 indicates the stability of most programs.

National Defense. The budget for the Defense Department stayed level at $40.9 billion. This leveling was accomplished by halting development and production of several weapons systems that would have been superseded within a year or two, such as the Seamaster plane and the Regulus II guided missile to be fired from ships. IRBM production also will not go on a large-scale basis, since greater emphasis is being placed on ICBM in view of the success of the Atlas program and the reluctance of our allies to have IRBM bases. Military construction has been cut $300 million. The total manpower of the three

TABLE 1. BUDGET EXPENDITURES BY FUNCTION, 1957-60
(Fiscal years; billions of dollars)

Function	1957	1958	1959	1960
Major national security	43.3	44.1	46.1	45.8
International affairs and finance	2.0	2.2	3.7	2.1
Commerce and housing	1.5	2.1	3.5	2.2
Agriculture and agricultural resources	4.5	4.4	6.8	6.0
Natural resources	1.3	1.5	1.7	1.7
Labor and welfare	3.0	3.4	4.4	4.1
Veterans services and benefits	4.8	5.0	5.2	5.1
Interest	7.3	7.7	7.6	8.1
General government	1.8	1.4	1.7	1.7
Allowance for contingencies	...	...	.2	.1
Total	69.4	71.9	80.9	77.0

Source: *The Federal Budget in Brief, Fiscal Year 1960.*

services will not be cut any further in 1960. The nation's capability to fight brush-fire wars is kept at its present relatively low strength. Caution and an emphasis on economical rather than "crash" development of new weapons characterize this defense budget.

The *foreign aid* budget will fall as military assistance declines. But there will be increased loan programs under the development loan fund if the Congress approves.

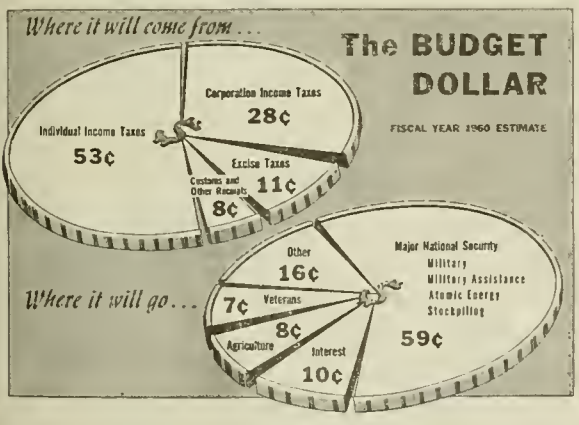
Commerce and housing expenditures are estimated to decline, as mortgage purchase programs are to be curtailed, college housing loans virtually terminated, airport grants reduced, urban renewal kept to a modest scale, and the postal deficit eliminated. Expenditures for the new air traffic program will rise from $680 million to $900 million, however.

The cost of *agriculture* remains very high with the budget estimate of $6 billion probably underestimating the cost of price supports.

Veterans programs decline very slightly to $5.1 billion but this assumes that the President can keep the Congress from enacting expensive pension legislation.

This, then, is the President's budget. (See Chart 2.) Compared with the recommendations of the Rockefeller and Gaither reports, the outlays for defense and foreign aid, the fields which are crucial for our leadership of the free world, are very low. Some effort is made to keep the programs favoring special interests, particularly veterans and agriculture, at least in check, though there is no reallocation of funds from these fields toward foreign policy objectives.

CHART 2



Source: Executive Office of the President, Bureau of the Budget.

What Will the Congress Do?

The impending fight between the "spenders" and the Administration, a fight which may never take place given the power of conservative committee chairmen in the Congress, is really more about future budgets than about 1960. Proposals for urban renewal grants, airport construction, community facilities, atomic power reactors, school construction, and natural resource projects in the West would have their major impact only in later years. Similarly, the higher user charges requested by the President would not make their major revenue contributions in 1960. Thus the actual budget for 1960, while it may not be balanced if Congress adds programs, may not differ by more than $2 billion to $3 billion from the figures requested. To be sure, if the situation becomes really acrimonious, the Congress can choose to stall on voting the $1.4 billion for the International Monetary Fund so that it has to appear as an expenditure in 1960, and it can block the intended sales of assets. These actions, which have no impact on the economy, could alone create a deficit of $2 billion. But neither side gains much by creating a large bookkeeping deficit.

The areas in which more may be spent because of congressional action are the following: (1) defense and space — an extra $700 million could easily be spent under congressional pressure; (2) agriculture — even if the soil bank program is not renewed, price support costs could easily exceed the estimate by $300 million; (3) veterans — the pressure for pensions is very strong and could easily cost close to $1 billion, but in the next Congress a presidential veto would probably be sustained; (4) housing — various construction programs could add $100 million to $200 million in the next year but the long-run cost could rise by closer to a billion; (5) unemployment — renewal of the temporary recession program to extend unemployment insurance benefits, which is likely, would add $200 million; (6) revenues — failure to enact the gas tax and postal rate increases would cost $700 million; ordinary revenues may also fall short of current estimates by $500 million; (7) on the other hand, foreign aid expenditures may be cut further by the Congress. Adding up these figures and making some allowance for other programs, we arrive at a possible deficit of $3 billion. This is a small figure, and if inflation should return, revenues will rise more than anticipated. Thus, the deficit will be cut substantially even if the budget is not fully balanced.

A Widening Gap

So far our discussion applies to the regular Administrative Budget, the budget by which the state of budget balance is traditionally judged. In recent years, more and more of government expenditures fail to appear in this budget. The cash budget, known officially as Federal Government Receipts from and Payments to the Public, is a much more inclusive document, reflecting the operations of the many trust funds which are left out of the Administrative Budget. Table 2 shows that the gap between these two budgets is widening rapidly.

If it were just a matter of bookkeeping, this state of affairs would be of interest only to accountants and budgeting technicians. But important principles are at stake. First, the expenditures financed out of trust funds are not subjected to the same scrutiny as regular expenditures and need not compete with other programs for the very scarce budget dollar. Thus, in this year of expenditure freeze, highway expenditures, which have been taken out of the regular budget, are scheduled to

TABLE 2. ADMINISTRATIVE BUDGET COMPARED WITH RECEIPTS FROM AND PAYMENTS TO THE PUBLIC

(Fiscal years; billions of dollars)

	1958	1959	1960
Administrative budget:			
Receipts	69.1	68.0	77.1
Expenditures	71.9	80.9	77.0
Surplus or deficit	− 2.8	−12.9	+ .1
Cash budget:			
Receipts	81.9	81.6	93.5
Payments	83.4	94.9	92.9
Surplus or deficit	− 1.5	−13.2	+ .6

Source: *The Federal Budget in Brief, Fiscal Year 1960.*

rise from $2.6 billion to $3.1 billion. Defense and medical research are frozen, but the highway program rolls merrily on.

Second, the trust fund device is a method of splitting up the budget into a lot of little budgets, each one having its own source of revenue. State and local governments have long been plagued by the proliferation of earmarked revenues. The federal government has traditionally pooled revenues, always with some exceptions, and thus left itself free to spend the money where the highest priorities lay. The highway trust fund was a drastic departure from this policy, and in 1960 the administration of the unemployment insurance system is also to be taken out of the budget and organized into a trust fund. Continuation of this trend will not only reduce the scope of evaluation of competing demands for funds, but will make the balance or imbalance of the items remaining in the regular budget a poor indicator of the way in which the government is meeting its fiscal responsibilities.

The Budget and the Economy

Perhaps the biggest stimulus to the recovery from the present recession has been the increase of purchases of goods and services by governments at all levels. Between the fourth quarter of 1957 and the fourth quarter of 1958, federal purchases rose by $4 billion, state and local by $2 billion. If the President's budget is enacted, there will be no further increase of federal purchases of goods and services after the middle of 1959 and they may even fall. It is questionable whether the recovery will proceed at a satisfactory pace when this prop is removed. The business situation can be observed for several months before final expenditure commitments need to be made and perhaps by that time it will be clear whether unemployment in the winter of 1959-60 can be cut to prosperity levels, given these expenditure plans. Should the business outlook continue cloudy at midyear, ending the increase in federal purchases could seriously endanger the recovery.

The rationale of the balanced budget is the fight on inflation. So far as price increases are due to the monopoly power of unions and management, the restraint on federal purchases will be an ineffective anti-inflationary weapon. At this time, the volume of unemployment is strong evidence that there is no immediate hazard of demand inflation. It remains to be seen whether the summer of 1959 is the proper date on which to hold back demand.

In summary, the balance in the budget for 1960 was attained by freezing expenditures, by proposing various increases in revenues, by transferring some responsibilities to state and local governments and private groups, and to a minor extent, by the sale of assets. The Congress and the weather are likely to unbalance the budget by a few billion dollars. The rate of increase of federal purchases of goods and services, one of the main props of the business recovery, will slow down or halt altogether. Despite sputniks and Russian economic penetration, we continue to be generous with agriculture, veterans, highways, and some other domestic outlays, and niggardly with foreign aid and national defense.

Pressure on Interest Rates

(Continued from page 2)

if they wish, add to their real capital without substantial new borrowing.

A Policy of Pushing Rates Up

There is, however, one other important factor in the situation, namely, government. Government units at all levels have been running deficits. The fiscal 1959 "balanced budget" for the federal government has produced an actual deficit of $13 billion. In addition, new capital issues of state and local governments totaled over $8 billion in 1958. Since private demands for funds were reduced in the recession, these deficits have been a decisive source of pressure on money and capital markets.

Currently, this pressure is easing. Reasons why the federal deficit is expected to be much smaller in fiscal 1960 are given in this month's special article. For the current fiscal year, the season when the deficit mounts is past. Although no substantial surplus is expected between January and June, at least there is no immediate need to tap new money sources for the time being.

A certain importance attaches, however, to the way the debt is handled as well as to the amounts involved. The Treasury has a peculiar bias in favor of "lengthening maturities." This is aggravated by an apparent desire to make new issues "sweet enough" so that they will be oversubscribed. Policy thus tends to push up the whole structure of interest rates. The "tightness" of money is made apparent to everyone. Builders clamor for a higher ceiling on guaranteed mortgages. Banks can see no need to hold their prime rate to the level of governments.

The justification for this is usually held to be "the working of the free market," and the Treasury is often complimented on its "willingness to pay going rates." Actually, this is little more than a diverting fiction. The government's power to control the money supply puts it in a special market position, and even if those powers are not to be arbitrarily used, the huge volume of its outstanding debt removes it from the category of ordinary borrowers. The market is basically in no position to force rates upon it, and acceptance of high rates is therefore a matter of policy.

Anti-inflationary as well as other points of view should undoubtedly be represented in determining that policy. But points of view have to be qualified by economic conditions. Currently, recovery in production and employment is incomplete and unemployment remains undesirably high. Further improvement cannot be taken for granted.

If policy is consciously intended to be deflationary, it should work first of all to eliminate the budget deficit. If it succeeds there, problems of rising rates and falling maturities will tend to disappear, perhaps more quickly than anyone desires. If conditions do not justify eliminating the deficit, they do not justify a policy of pushing rates up. For if the latter have any effect at all, it is to depress investment in an economy lacking the strength to grow; and a policy designed to turn a shaky economy down could hardly be anything but a tragic mistake. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Foreign Investment

According to data released by the Department of Commerce, United States firms made direct investments abroad in property, plant, and equipment amounting to $3.6 billion in 1957. About $3.2 billion of the reported foreign capital expenditures in the year were in mining, manufacturing, and petroleum industries. In the petroleum industry alone, foreign plant and equipment outlays amounted to slightly more than $2 billion. Expenditures in manufacturing amounted to less than $900 million; nearly half of this total was invested in Canada and about 40 percent in Europe, mainly in the United Kingdom. Of the $300 million expenditure in the mining and smelting industry, 86 percent was in Western Hemisphere countries.

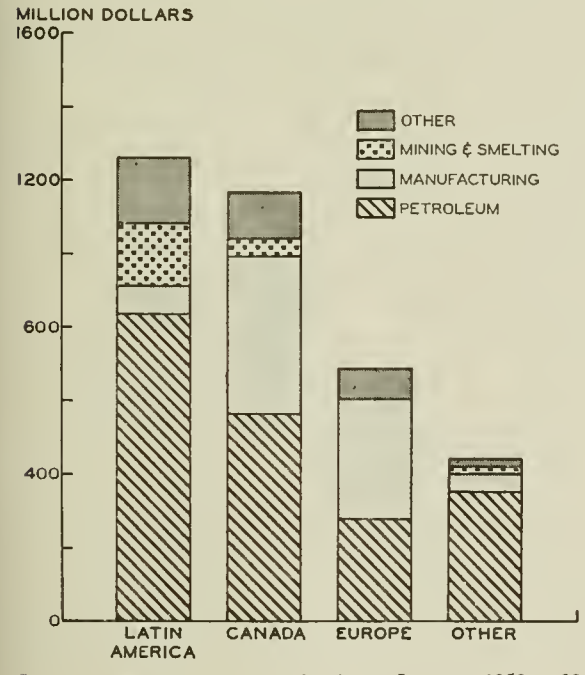
The Latin American countries and Canada received a total of $2.5 billion, or 68 percent, of United States total direct investment in foreign plant and equipment in 1957. The Latin American outlay amounted to $1.3 billion, of which 66 percent was in the petroleum industry and 14 percent in the mining and smelting industries (see chart). Of the $1.2 billion expenditure in Canada, 48 percent went into petroleum enterprises, while manufacturing industries obtained 37 percent. Investments in manufacturing industries accounted for slightly less than half of the $700 million outlay in Europe.

Oxygen Techniques in Steelmaking

According to *Business Week,* oxygen techniques of steelmaking are increasing in popularity among the nation's steel producers. They have achieved this new popularity primarily as a result of the speed they impart to what has been a fairly slow process. Blowing oxygen into molten steel is the simplest way to boost the tons of steel produced per hour, whether in a converter, an open-hearth, or an electric furnace. The process is accelerated because the undesirable metalloids are used as fuels and thus "burned off." This use of oxygen produces higher temperatures and faster reactions, enabling one oxygen shop to melt 81 tons per hour, whereas the nation's open-hearth shops melt an average of 25 tons to 35 tons per hour.

In 1958 the use of oxygen techniques increased from five oxygen converters to twelve during the year. The seven new converters accounted for about 43 percent of the 7 million additional tons of capacity. This type of converter enabled one company to increase its capacity by 91 percent and jump from thirteenth to ninth place among the nation's steelmakers. The converters also made it possible for another company to raise its capacity 74 percent to become the eighteenth largest commercial producer. In addition, the use of oxygen, primarily through roof lances, had much to do with the 4.2 million ton increase in open-hearth capacity during 1958. This was accomplished with six fewer furnaces.

PRIVATE PLANT AND EQUIPMENT EXPENDITURES ABROAD, 1957



Source: *Survey of Current Business,* January, 1959, p. 22.

Anti-Rust Oil

Comet Rice Mills, Dallas, Texas, has developed a new corrosion preventive by combining rice oil with a secret drying agent. The claim that this new product outperforms standard anti-rust oils is based on tests by the Texas Research Foundation in which they found no corrosion on metal protected by the rice oil in the standard aluminum strip test, and 10 percent corrosion in the standard iron strip test in which other oils permitted 20 percent or more.

The oil is obtained from rice bran, the discarded coat of the seed grain, with a solvent extraction process, and then in further steps the solvent is removed. In its Houston plant, one of the world's largest rice mills, the oil-producing capacity is between 4,500 gallons and 7,500 gallons a day. Steel companies, shipbuilders, and gas pipelines have experimentally used the rice oil, which as yet is without a trade name. The oil is available in quantities up to tank car lots from Comet Mills, and the price is quoted at $2.50 a gallon.

Projections of Educational Attainment

The Bureau of the Census has recently made projections of educational attainment for the United States on the basis of estimated future population growth and future changes in the proportion of the population attending high school and college. According to the bureau's projections, the number of high school graduates in the population is expected to be about 52 million in 1960, 70 million in 1970, and 95 million in 1980. This means that the percentage of the population 15 years old and over who are high school graduates will increase from 42 percent in 1960 to approximately 55 percent in 1980.

The projection of the number of college graduates shows a rate of growth almost as great for the next two decades as for high school graduates. In 1980 the number of persons who will have completed four or more years of college will total about 15 million, about 7 million more than at the present time, and will be the equivalent of 10 percent of the population 20 years old and over as compared with 7 percent in 1960.

LOCAL ILLINOIS DEVELOPMENTS

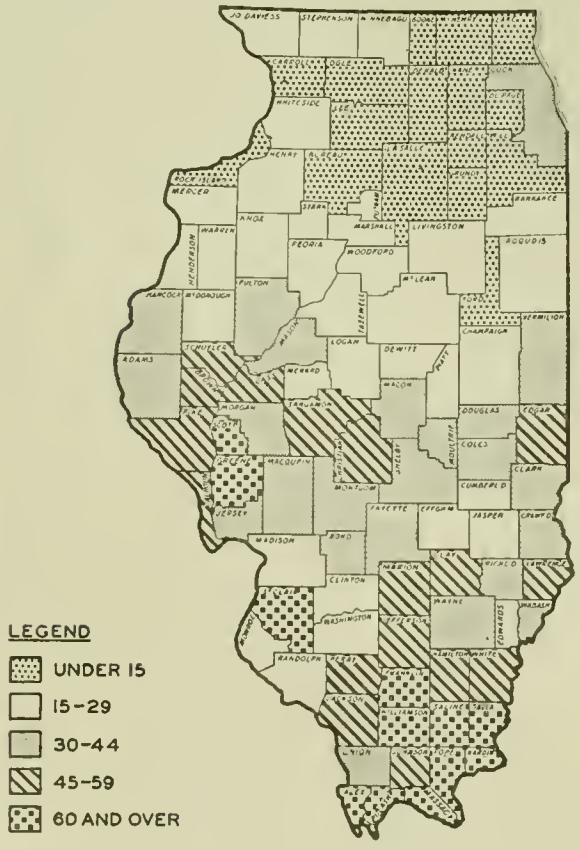
Illinois business activity in December rose sharply from the preceding month. With the exception of construction contracts awarded, consumer prices in Chicago, and farm prices, all indicators advanced (see page 4). Coal production increased 31 percent, bank debits in selected Illinois cities 26 percent, life insurance sales 17 percent, and electric power 11 percent.

Comparisons with December a year ago showed that all indicators gained with the exception of manufacturing employment and construction contracts awarded, which experienced declines of 6 percent and 5 percent respectively. Both coal production and bank debits rose 12 percent, life insurance sales 6 percent, and average weekly earnings 4 percent.

Dependency in Illinois

The Illinois Public Aid Commission reported recently that the State's public assistance loads resumed their upward climb in September, 1958, after a significant decline in August. There has been a continuous decline in general assistance during the past six months, amounting to about 24,000 persons. Old age assistance declined as it has since 1950, but at a slower rate. These decreases in general assistance and old age assistance were not sufficient to offset the increase in aid to dependent children. Cook County has experienced a rapid rise in aid to dependent children, having had an increase of about 19,000 in the last twelve months, compared with 24,000 for the entire State.

NUMBER OF RECIPIENTS OF STATE AID PER 1,000 POPULATION, SEPTEMBER, 1958



Source: *Public Aid In Illinois*, December, 1958.

On the average, 35 persons per 1,000 population in Illinois received public aid in September. Cook County had an average of 39 persons, whereas all other counties averaged 30 persons (see chart). The counties in the upper third of the State, excluding Cook County, generally had lower rates; DuPage County had the least of all with four persons. The counties in the southern third of the State generally showed the largest proportion of recipients receiving state aid. Seven southern counties had more than 100 persons on aid rolls per 1,000 population, Pulaski with 176 persons and Gallatin County with 169 persons having the highest rates.

Failures and Incorporations

According to Dun and Bradstreet reports, Illinois business failures totaled 622 in 1958. This represents an increase of 14 percent over the total number of failures in 1957 and 40 percent over 1954. For the last five years, the number of business failures has ranged from a low of 428 in 1955 to the high in 1958, with the major portion of the increase occurring in 1957 and 1958.

The total dollar liability of the failures in 1958 amounted to more than $35 million, as compared with $30 million in 1957 and $38 million in 1954. Although the total dollar liability decreased 9 percent as compared with 1954, there was an even greater decline, amounting to 39 percent, in the average dollar liability per failure. However, there was a 3 percent increase in the average liability from 1957.

Newly incorporated businesses totaled slightly more than 7,200 in 1958. This was the second highest number on record and represented an increase of 11 percent from 1957 and 32 percent from 1954. With the exception of 1957, new business incorporations have continued to increase in the State for the last five years, rising from a low of 5,502 in 1954 to the 7,200 last year.

A Record Year

Data released by the Illinois Crop Reporting Service indicate that the 1958 composite yield per acre is the largest ever produced on Illinois farms. The state-wide corn yield set a new record, and the yields from the other four major crops — soybeans, wheat, hay, and oats — were near record levels. A total of 599 million bushels of corn was produced in 1958, an average of 69 bushels per acre. Although soybean growers produced one-half bushel less than the highest per-acre yield, the total production of 140 million bushels established a new record. The winter wheat crop, amounting to 54 million bushels, was nearly half again as large as the 1957 crop, and has been exceeded only twice in a generation. Oats yielded 55 bushels per acre, only one bushel less than the 1955 record high and 13 bushels more than the average. A total of 4.9 million tons of hay was produced during the past season, 1 percent more than last year and 10 percent more than the average.

Illinois ranks third in the United States in the value of all crops, including fruits and vegetables, with a total of $1.2 billion. The five major crops contributed 98 percent of this total crop value, with corn and soybeans accounting for the major share. The value of the corn yield increased 4 percent to a total of $629 million, while the largest advances of the other major crops came in wheat and oats, with increases of 29 percent and 28 percent respectively.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1958

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$22,495[a]	1,189,991[a]	$552,514[a]		$19,169[a]	$19,057[a]
Percentage change from Nov., 1958	−32.5	+8.2	+2.0	+58	+26.5	+16.8
Percentage change from Dec., 1957	−55.5	+5.0	−13.4	+7	+12.0	+6.0
NORTHERN ILLINOIS						
Chicago	$15,417	892,887	$405,378		$17,632	$16,382
Percentage change from Nov., 1958	−38.2	+6.6	+2.4	+58	+27.7	+15.2
Percentage change from Dec., 1957	−62.5	+4.7	−15.6	+8	+12.2	+4.4
Aurora	$ 887	n.a.	$ 8,639		$ 72	$ 174
Percentage change from Nov., 1958	−23.5		+3.6	+43	+1.8	+19.6
Percentage change from Dec., 1957	+50.6		−1.9	+39	+6.1	+18.5
Elgin	$ 378	n.a.	$ 6,326		$ 51	$ 137
Percentage change from Nov., 1958	+53.0		+9.5	n.a.	+11.0	+2.7
Percentage change from Dec., 1957	+76.6		−12.4		+16.1	−3.8
Joliet	$ 518	n.a.	$10,749		$ 93	$ 162
Percentage change from Nov., 1958	−3.5		+8.5	+67	+11.8	+47.6
Percentage change from Dec., 1957	+35.2		−3.2	+10	+12.9	+27.6
Kankakee	$ 162	n.a.	$ 5,181		n.a.	$ 75
Percentage change from Nov., 1958	−49.7		+2.8	n.a.		+41.3
Percentage change from Dec., 1957	+43.4		−6.3			+18.1
Rock Island-Moline	$ 448	25,423	$10,566		$ 118[b]	$ 202
Percentage change from Nov., 1958	−38.8	+3.8	−6.8	n.a.	+7.8	+22.9
Percentage change from Dec., 1957	−15.6	−3.8	−5.2		+13.1	+17.4
Rockford	$ 663	48,725[c]	$17,396		$ 197	$ 292
Percentage change from Nov., 1958	−43.6	+6.6	+2.6	+72	+14.4	+31.8
Percentage change from Dec., 1957	−63.6	+7.4	−13.3	+5	+7.5	+8.9
CENTRAL ILLINOIS						
Bloomington	$ 219	9,440	$ 5,507		$ 86	$ 114
Percentage change from Nov., 1958	+68.5	+15.8	+1.1	n.a.	+32.5	+10.1
Percentage change from Dec., 1957	−91.2	+10.4	−0.6		+34.4	+29.8
Champaign-Urbana	$ 373	14,247	$ 8,121		$ 77	$ 146
Percentage change from Nov., 1958	+42.9	+8.9	−2.7	n.a.	+0.5	+21.6
Percentage change from Dec., 1957	+205.7	+14.4	−3.1		+12.0	+11.8
Danville	$ 199	13,306	$ 5,876		$ 53	$ 94
Percentage change from Nov., 1958	−13.5	+0.5	+0.7	+62	+8.8	+50.7
Percentage change from Dec., 1957	+74.6	+7.5	−3.1	+9	+15.0	+16.9
Decatur	$ 369	33,556	$11,298		$ 125	$ 162
Percentage change from Nov., 1958	−15.2	+8.7	−0.2	+61[c]	+23.1	+35.2
Percentage change from Dec., 1957	+2.5	−5.8	−16.2	+25[c]	+6.4	+20.7
Galesburg	$ 154	9,487	$ 4,801		n.a.	$ 58
Percentage change from Nov., 1958	−84.9	+9.8	+4.8	n.a.		0.0
Percentage change from Dec., 1957	−82.0	+5.3	−0.2			+14.0
Peoria	$ 756	54,939[c]	$16,549		$ 249	$ 380
Percentage change from Nov., 1958	+7.2	+45.5	+0.1	+66[c]	+17.0	+30.8
Percentage change from Dec., 1957	−3.9	+11.9	−9.2	+8[c]	+4.3	+18.4
Quincy	$1,095	11,034[c]	$ 4,994		$ 54	$ 98
Percentage change from Nov., 1958	+470.3	+14.5	−0.5	+59	+17.7	+36.7
Percentage change from Dec., 1957	+559.6	+7.7	−8.8	+6	+15.6	+22.1
Springfield	$ 449	39,573[c]	$13,749		$ 145	$ 362
Percentage change from Nov., 1958	−22.6	+7.0	+3.2	+63[c]	+4.4	+26.1
Percentage change from Dec., 1957	+24.7	+10.2	+0.2	+9[c]	+13.3	+25.8
SOUTHERN ILLINOIS						
East St. Louis	$ 141	13,297	$ 8,363		$ 166	$ 93
Percentage change from Nov., 1958	+513.0	+8.8	−2.7	n.a.	+18.3	+27.1
Percentage change from Dec., 1957	+28.2	+7.0	−3.5		+0.1	+11.5
Alton	$ 30	13,597	$ 4,605		$ 50	$ 51
Percentage change from Nov., 1958	−94.1	+9.1	−2.5	n.a.	+30.1	+33.6
Percentage change from Dec., 1957	−92.4	+8.9	−5.6		+19.7	+2.5
Belleville	$ 237	10,481	$ 4,416		n.a.	$ 74
Percentage change from Nov., 1958	+157.6	+11.1	−2.5	n.a.		+65.9
Percentage change from Dec., 1957	+393.8	+1.4	−3.2			+35.6

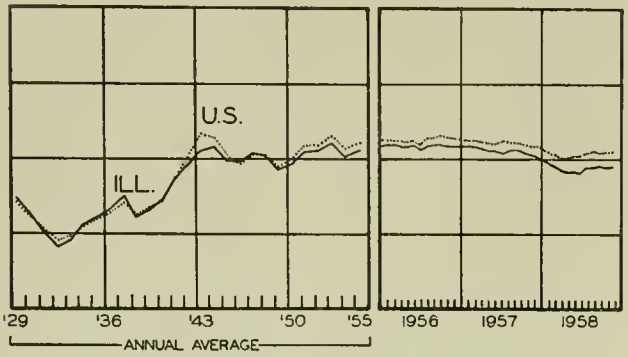
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for November, 1958. Comparisons relate to October, 1958, and November, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending December 12, 1958, and December 13, 1957.

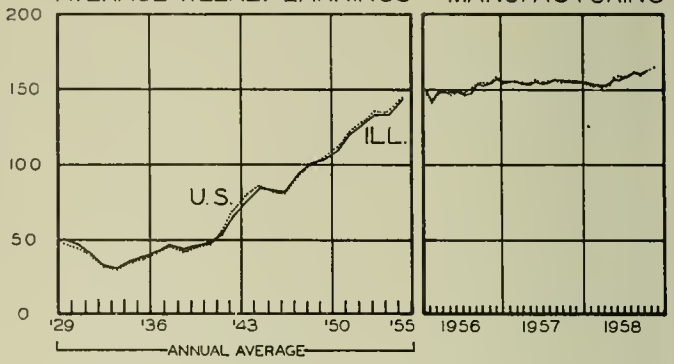
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

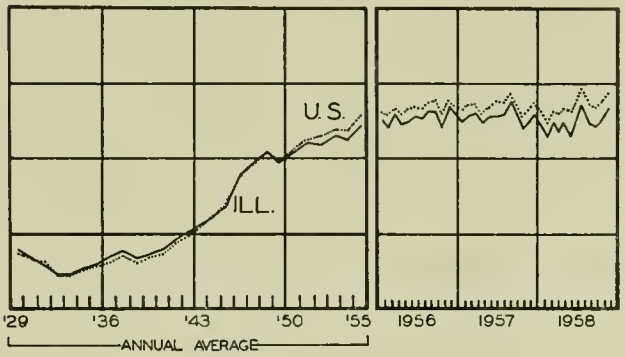
EMPLOYMENT MANUFACTURING



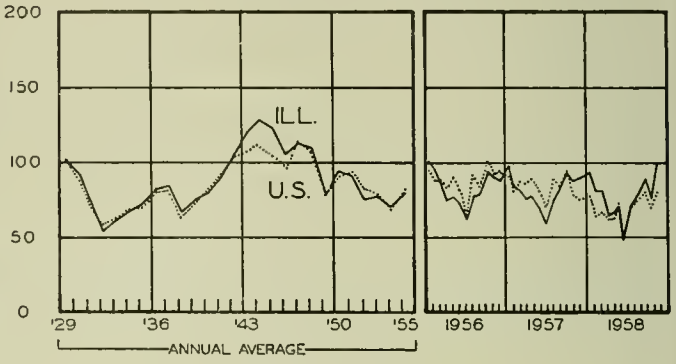
AVERAGE WEEKLY EARNINGS - MANUFACTURING



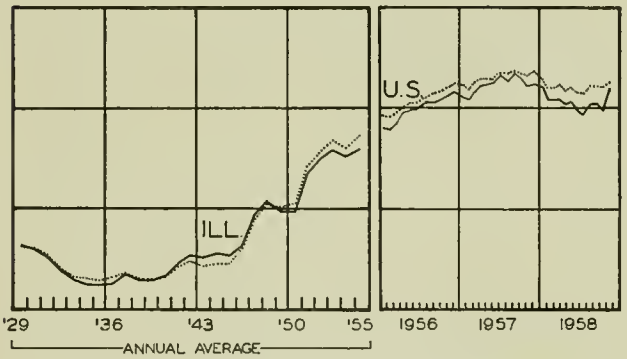
DEPARTMENT STORE SALES



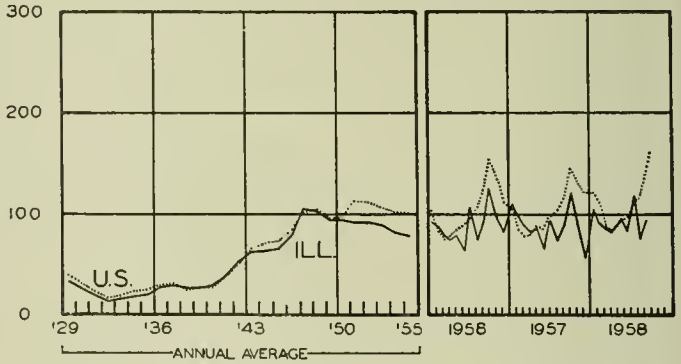
COAL PRODUCTION



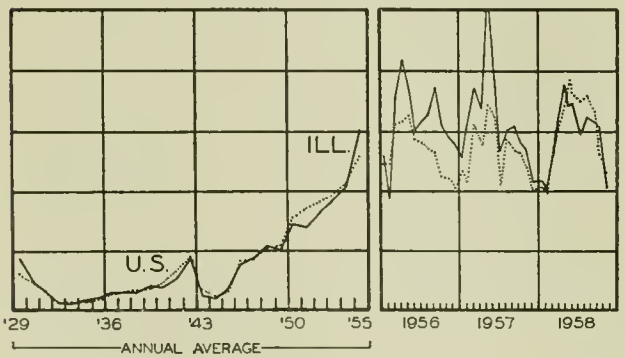
BUSINESS LOANS



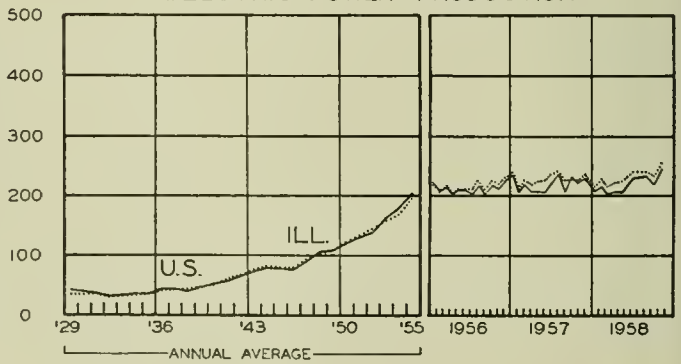
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN FEBRUARY

Little change in business activity was evident in February. Small gains in output were made in some industries, notably steel, raising over-all industrial production another point to 144 percent of the 1947-49 average. Retail sales were up slightly from January, after allowing for seasonal influences; the index of department store sales stood at 138 (1947-49 = 100) as it did in the preceding month. Unemployment increased 63,000 and employment dropped 50,000, on a seasonally adjusted basis.

Steel production rose sharply during the month as a result of ordering to build up stocks as a hedge against a possible strike in the industry. The automobile industry turned out 12 percent fewer passenger cars than it did in January, only partly because of fewer working days. Sales of cars were off 6 percent; with production exceeding sales by about 73,000, inventories were approaching the 800,000 goal at which the industry is said to be aiming.

Following closely on releases showing January increases in business inventories and consumer credit, the Federal Reserve System announced on March 5 an increase in the discount rate from 2½ percent to 3 percent.

Construction Boom Continues

February construction outlays of $3.5 billion were 12 percent above the previous record for the month set last year, even though the usual seasonal contraction brought the total 5 percent below January. Private spending for new construction accounted for $2.5 billion in the month, down 5 percent from January but 10 percent above February, 1958. The increase over the year-earlier month was due primarily to a 32 percent rise in outlays for new dwelling units, more than enough to offset the 34 percent drop in expenditures on industrial buildings over the same period. Thus far in 1959 outlays of the latter type are at the lowest level in eight years.

Public construction fell 8 percent in February to just under $1 billion but was still 17 percent above the year-earlier month. Spending on highways and housing experienced the largest dollar gains over February, 1958, but large percentage increases were recorded in a number of other categories.

Sales Steady, Inventories Up

Total sales of manufacturing and trade firms were unchanged in January at $57.4 billion, after seasonal adjustment. Small increases pushed manufacturing sales to $28.2 billion and sales by wholesalers to $11.8 billion, offsetting a $200 million drop by retailers to $17.4 billion. The changes were in nondurables for trade and in durables for manufacturing. The total was $3.2 billion above the year-earlier figure.

Inventories rose $300 million in the month to $85.5 billion, down $4.3 billion from January, 1958. Stocks held by manufacturers rose by the same amount, bringing their adjusted total to $49.5 billion, 7 percent below the year-earlier figure. A decrease of $100 million in wholesalers' stocks of nondurables offset a rise of the same amount in retail inventories, where stocks of durables went up $200 million while nondurables fell $100 million.

Installment Debt Advances

In January consumers added $185 million on a seasonally adjusted basis to their installment debt arising from the purchase of automobiles, bringing the total of this type of debt to $14.2 billion, still $1.1 billion below the year-earlier figure. In addition, they increased their outstanding installment obligations for other consumer goods by $91 million to $8.9 billion, bringing this category 5 percent above January, 1958. Increases in repair and modernization loans and in personal loans raised these commitments to $2.1 billion and $8.6 billion respectively. Total installment debt was up $387 million in the month to $33.8 billion, slightly above the year-earlier total.

Noninstallment debt of consumers also expanded in January, the total rising $169 million on an adjusted basis to $10.6 billion, $456 million above January, 1958. An adjusted increase of $150 million in charge accounts was the major factor in the gain. Total consumer debt increased at an annual rate of $6.7 billion.

Farm Surplus Rises

At the end of January the federal government's investment in surplus farm products was above $9 billion. This was $1.8 billion higher than the year-earlier figure and the total was expected to continue upward at least through February. Crops owned outright by the government accounted for $5.2 billion of the total, the remainder representing crops under support. The latter were at a record level, the previous high having been $3.6 billion in February, 1954.

The last day that most crops produced in 1958 were eligible for price support loans was February 2, but cotton and corn are still going under loan and are expected to keep the government's investment in the loan program at a high level through the spring months.

IS THE DOLLAR WEAKENING? · · By George Kleiner · · Page 6

ILLINOIS BUSINESS REVIEW

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Foibles of Monetary Policy

Since the middle of last year, Federal Reserve action has been generally cautious and neutral. Nevertheless, it has been the subject of endless controversy, with various participants criticizing or approving what they conceive to be its objectives or effects.

In part, this controversy arises from differences of opinion about the character of the economic situation and therefore about the kind of control measures required to deal with it. In part, however, it reflects the unsatisfactory state of theory about monetary policy and controls. For example, the debate over the "bills only" policy has done less to establish the validity of that policy, or the reverse, than to reveal how little is known about what monetary policy can accomplish.

The "Bills Only" Policy

No one can deny that the "bills only" policy, whereby the Fed confines its open-market operations to Treasury bills, does have some "trickle down" influence on the long-term market by way of the effects of purchases or sales of bills on bank reserves. Through most of 1958, the Fed was providing funds by open-market purchases, first, to counter the recession and, later, to meet peak seasonal demands for funds. The banks did use these funds as well as those made available by reduced reserve requirements to expand their investments. The money supply expanded during the year to the full extent permitted by the Fed's actions.

It is also clear, as opponents of this policy have indicated, that there are lags and imperfections in market action. The rate on long-term bonds was in process of coming down early last year. The sharp midyear rebound is now blamed on "the speculators." Another way of looking at what happened is that the people who had been cooperating in bringing it down were left holding the bag. Everything that was going on, everything that the Fed was doing, was calculated to encourage the decline in rates. Then sentiment reversed, and with the Fed enamored of its "bills only" policy, the rebound was severe. Only then could the bulls on bonds be identified as "speculators."

The decline in bond rates halted at a point about one-half percent below the peak, and then they went right back up, surpassing the earlier peak reached in 1957. Changes in bank portfolios fully conformed to the pattern making for these rate changes; in the first half of 1958, holdings of bonds expanded sharply, and in the second half, almost all the additional bonds were replaced with notes and certificates.

The minor dip in the bond rate had no apparent influence on the pace of fixed investment. Business outlays for plant and equipment merely leveled off after the sharp decline from 1957.

Whether easy money contributed significantly to short-term business investment is more of an open question. Relief from extreme illiquidity for business and the banking system was provided by the Fed's action, and this could only have worked on the side of reversing the inventory sell-off. But it seems probable that the movement to liquidate inventories had already run its course, so that recovery would have begun in any case.

In contrast to the bond rate, the rate on Treasury bills declined much further and has not made a full recovery to the 1957 peak. Some are inclined to attribute this to Fed policy but, again, other considerations render the point inconclusive. The mounting government deficit, the increase in money supply, and the continuing advance in wage rates have brought the inflation phobia that has been developing for several years to an acute phase, so that the market displays a strong prejudice against bonds. Investors clearly prefer the liquidity of bills at a good rate of interest to bonds with a somewhat higher rate.

Oddities of Liquidity Preference

In Keynes's *General Theory*, the rate of interest is presented as an inducement to give up liquidity and to accept the risks of holding assets whose prices might decline. Bonds are riskier than bills, not only because current prices swing further with changes in interest rates but because the purchasing power of the dollar may decline further over long periods. Nevertheless, the bill rate will tend to follow the bond rate up in periods of tight money, maintaining only the differential needed as insurance against the higher risk.

That is why Treasury insistence on lengthening maturities tends to push the whole interest rate structure up. Reluctance to issue bills or other shorts — which in the short-run are no more inflationary than longs — is itself a concession of danger that encourages the market to look for still higher rates.

The idea that inflation is inevitable can obviously live through a short recession. In the course of a prolonged boom, after several short recessions, it seems reasonable to harbor the illusion that business will always be good and corporate profits always high. The growth of this "new era" philosophy sets the tone of financial markets in the final stages of the boom.

Monetary policy contributes to this view through its apparent success in promoting recovery and its actual success in stimulating the stock market. Although the Fed's easy money actions in early 1958 had a minimum of influence on business conditions, they almost as certainly had important effects on stock prices. It may be surmised that part of the $10 billion the banks paid out in expanding their investment accounts went temporarily into hoards. But the behavior of the market in recent months suggests that any such first reaction did not hold. Efforts to convert idle balances into stock portfolios have driven prices to record highs.

Soaring stock prices seemingly reflect a move away from liquidity. There can hardly be any question that

(Continued on page 8)

TRACTORS—THE MODERN AGRICULTURAL MAINSPRING

A revolution in American agriculture began early in this century when a practical gasoline-driven tractor was developed. Tractors had been known as early as 1825 when a steam-operated machine was invented in England. However, steam tractors never became widely used, because of their prohibitive expense and inefficiency. Not until the automobile industry showed how to mass produce small, efficient internal-combustion engines after the beginning of this century was the foundation laid for extensive utilization of the tractor for farm purposes.

Use of tractors on American farms has swelled immensely since 1910 when only an estimated 1,000 were in service. The number had risen to 920,000 by 1930, 1,675,000 by 1941, and 4,600,000 by 1957. In the years before World War I, tractor sales were slow because of the widespread availability of draft horses and mules, which were cheaper than tractors, although caring for these animals required much of the farmer's time. Moreover, the inevitable repair work on tractors also posed a difficulty because of a shortage of trained mechanics.

A great stimulus to tractor sales was created during World War I, when the number of domestic farm tractors in use tripled to 158,000 between 1917 and 1919. Since 1920, the number of tractors on farms has grown steadily. Even in the depression years 1931-35, the total increased by 23,000.

Improvements following World War I brought greater efficiency and maneuverability of the tractor. The tricycle type was introduced in 1924, the general-purpose tractor with wheels adjustable to crop-row widths appeared in 1926, and rubber-tired tractors came out in the early 1930's. Smaller one-plow tractors, which made power equipment feasible for smaller farms, became available in 1934 and were followed by the introduction of "baby" tractors in 1937. In recent years, refinements such as power transmissions, hydraulic controls, and integral mounting of equipment have given tractors additional power and versatility.

Tractors in the Postwar Years

Production of tractors has boomed in the post-World War II years. The dynamic postwar production expansion is vividly shown by the fact that the output of 7.5 million tractors in the period 1945-57 was more than three times the total production for the years 1922 to 1940 (excluding the depression years, 1931-34). Although the number of tractors produced has declined intermittently since an all-time high of 790,000 was reached in 1951, annual production still exceeds by a wide margin that of any year before 1940, despite the sharp reduction in the number of farms. As in past years, outlays for tractors represent a major share of total domestic farm machinery sales. In 1957, for example, tractor sales totaled more than $533 million (the lowest since 1947), about one-third of total expenditures for farm equipment.

The tractor industry is characterized by the almost complete supremacy of a few firms. Although there are more than 150 tractor plants, the lion's share of the tractor business fell to the largest 15, which had 83 percent of total employment (65,000) and 85 percent of total value added by manufacture ($516 million) in 1954. There is no indication that this situation has changed in the past five years.

Although tractors account for the largest dollar volume among all the various farm machines, there is no tractor industry as such, since every company making them also attempts to offer a complete line of farm machines. Tractor components generally are manufactured in more than one plant, especially for tractors larger than the garden type.

Because of the bulk and weight of their product, tractor manufacturing establishments tend to locate near market areas in order to minimize shipping costs. For this reason, about two-thirds of the nation's plants are in Midwestern states, where 53 percent of all wheel-type tractors and 47 percent of all track-type and garden tractors are in use. In addition, these states account for 54 percent of the total farm retail outlets.

Illinois — Tractor-Making Behemoth

Illinois is a giant in the tractor industry. Its stature is illustrated by the last Census of Manufactures (1954), which reveals that the State shipped nearly 57 percent ($655 million) of the total value of tractors sold by manufacturers, as compared with 48 percent in 1939. No other state challenges it in total production; its nearest competitor — Wisconsin — accounted for $186 million in value of shipments during the same year.

Although the State has only 15 tractor plants, all but two are large. The plants here average 2,200 workers and have an average annual payroll of nearly $10 million. In addition, each averages $19 million in value added by manufacture.

The State is also a principal market area for tractors. There are about 300,000 tractors on its 170,000 farms. At least one tractor can be found on more than 85 percent of these farms and one of every two farms has two or more. The wheel-type machines are the most common, comprising 91 percent of the total in the State, whereas garden tractors make up 8 percent (26,000) and track-type 1 percent (3,800).

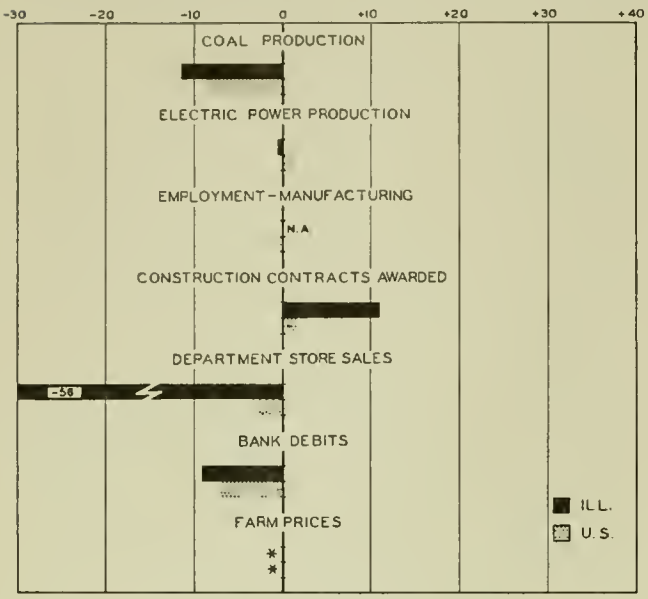
Three of the nation's five largest tractor producers have plants in Illinois. International Harvester, the nation's largest farm equipment manufacturer, owns plants in Rock Island, Moline, and Chicago, each with more than 2,000 employees. The second largest firm — John Deere Company — has its headquarters and tractor plants at Moline. Although the J. I. Case Company, which ranks fifth nationally, maintains its home office in Wisconsin, it has more than 1,500 workers in its Rock Island plant. In addition, the Caterpillar Tractor Company of Peoria, although chiefly an industrial tractor producer, is a major national supplier of diesel tractors for farm use.

Unless farm income declines drastically, the trend toward power farming and mechanization is likely to continue as more farms seek a second and third tractor. Moreover, the increasing size of farms should call for more powerful tractors.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1958, to January, 1959



* No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1959 (1947-49 =100)	Percentage change from Dec. 1958	Percentage change from Jan. 1958
Electric power[1]	244.0	− 0.7	+ 4.5
Coal production[2]	88.8	−11.5	− 4.3
Employment—manufacturing[3]	n.a.		
Weekly earnings—manufacturing[3]	164.8[a]	+ 1.4	+ 5.8
Dept. store sales in Chicago[4]	112.0[b]	−10.4	− 0.9
Consumer prices in Chicago[5]	127.1	+ 0.1	+ 0.8
Construction contracts awarded[6]	225.4	+11.1	+ 3.1
Bank debits[7]	199.2	− 9.2	+ 4.8
Farm prices[8]	83.0	0.0	0.0
Life insurance sales (ordinary)[9]	253.4	−25.1	− 3.0
Petroleum production[10]	128.3	− 0.4	+ 1.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts., [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] December data; comparisons relate to November, 1958, and December, 1957. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1959	Percentage change from Dec. 1958	Percentage change from Jan. 1958
	Annual rate in billion $		
Personal income[1]	362.3[a]	+ 0.7	+ 3.9
Manufacturing[1]			
Sales	338.4[a]	+ 0.4	+ 7.2
Inventories	49.5[a, b]	+ 0.6	− 6.4
New construction activity[1]			
Private residential	17.2	−10.7	+23.0
Private nonresidential	14.0	− 8.7	− 5.9
Total public	12.6	− 7.3	+14.8
Foreign trade[1]			
Merchandise exports	18.2[c]	− 5.2	− 7.6
Merchandise imports	15.0[c]	+15.1	+ 9.7
Excess of exports	3.1[c]	−48.7	−47.6
Consumer credit outstanding[2]			
Total credit	44.4[b]	− 1.4	+ 1.0
Installment credit	33.8[b]	− 0.3	+ 0.1
Business loans[2]	30.3[b]	− 3.6	− 1.2
Cash farm income[3]	36.4[c]	−12.8	+ 3.4
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	143[a]	+ 0.7	+ 7.5
Durable manufactures	154[a]	+ 1.3	+ 8.4
Nondurable manufactures	137[a]	+ 1.5	+ 7.9
Minerals	122[a]	− 0.8	+ 0.8
Manufacturing employment[4]			
Production workers	96	0.0	− 1.8
Factory worker earnings[4]			
Average hours worked	100	− 1.0	+ 3.1
Average hourly earnings	165	0.0	+ 3.8
Average weekly earnings	165	− 1.0	+ 7.0
Construction contracts awarded[5]	234	+ 1.6	+12.2
Department store sales[2]	138[a]	− 3.5	+ 6.2
Consumer price index[4]	124	+ 0.1	+ 1.2
Wholesale prices[4]			
All commodities	120	+ 0.3	+ 0.5
Farm products	92	+ 1.0	− 2.3
Foods	109	0.0	− 0.6
Other	128	+ 0.2	+ 1.1
Farm prices[3]			
Received by farmers	90	0.0	+ 1.1
Paid by farmers	119	+ 0.8	+ 2.6
Parity ratio	82[d]	− 1.2	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for December, 1958; comparisons relate to November, 1958, and December, 1957. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1959					1958
	Feb. 28	Feb. 21	Feb. 14	Feb. 7	Jan. 31	March 1
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,366	1,343	1,363	1,403	1,431	1,385
Electric power by utilities...mil. of kw-hr.	12,972	13,292	13,156	13,292	13,151	11,803
Motor vehicles (Wards)...number in thous.	153	146	141	140	145	109
Petroleum (daily avg.)...thous. bbl.	7,199	7,208	7,155	7,213	7,107	6,841
Steel...1947-49=100	145	142	138	133	126	86
Freight carloadings...thous. of cars	576	583	567	565	583	554
Department store sales...1947-49=100	118	109	111	108	106	107
Commodity prices, wholesale:						
All commodities...1947-49=100	119.1	119.4	119.4	119.3	119.5	119.0[a]
Other than farm products and foods...1947-49=100	127.5	127.6	127.6	127.5	127.4	125.7[a]
22 commodities...1947-49=100	84.2	84.2	84.7	84.6	84.7	85.7
Finance:						
Business loans...mil. of dol.	30,258	30,252	30,156	30,154	30,275	30,367
Failures, industrial and commercial...number	296	310	292	271	322	331

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for February, 1958.

RECENT ECONOMIC CHANGES

Farm Income

Net farm income, including government payments and the change in farm inventories, rose by about 22 percent in 1958 to $14.2 billion as increased production and higher average prices more than offset rising production expenses. The Agriculture Department reported that 39 states shared in the advance, led by Kansas, where average farm income jumped 242 percent after a poor agricultural year in 1957.

The income gained from farming was supplemented by income earned by farmers in nonfarm jobs. This source of earnings, which had been rising steadily on a per capita basis, suffered its first decline since 1946, falling from $309 in 1957 to $298 last year (see chart). On the other hand, average income per capita of the farm population from farming moved up to about $770 in 1958, compared with $658 in the previous year.

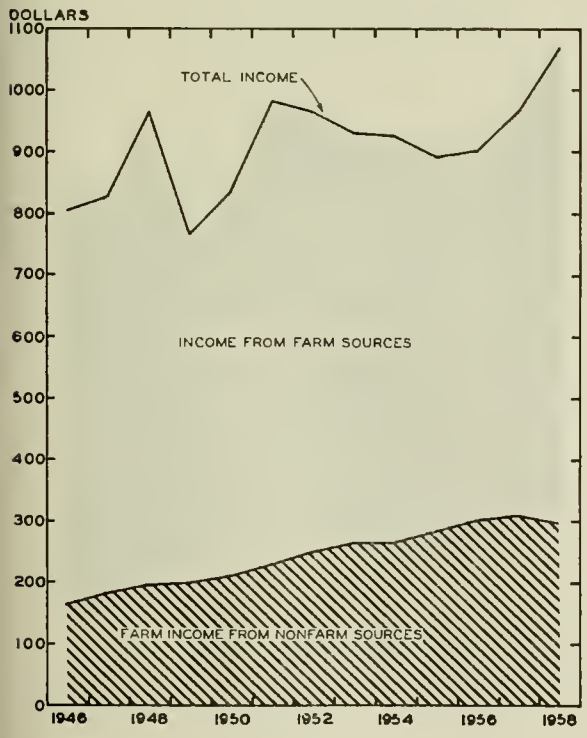
Total farm income from all sources averaged about $1,068 per capita, compared with the nonfarm population income of $2,034 and an average income for the whole population, both farm and nonfarm, of $1,918 per capita.

Manufacturers' Sales and Inventories

Manufacturers' inventories were reduced $4.2 billion in 1958, compared with an accumulation of $1.2 billion in the preceding year. Liquidation of inventories began in the final quarter of 1957 and continued through 1958, tapering off in the second half as production was increased to support rising sales. As a result the inventory-sales ratio for all manufacturers' goods fell to 1.75 at the end of January, 1959, compared with 2.01 a year earlier.

The pattern of inventory adjustment in 1958 reflected the fluctuations in over-all business activity both in timing and in composition. Durable goods stocks fell continuously from a September, 1957, peak of $31.8 billion to a low of $27.8 billion in December, 1958, a decline of about 12.5 percent. On the other hand, manufacturers' sales of durable goods, which fell 21.8 percent in the fourteen-month period from February, 1957, to April, 1958, began to recover last May and reached $13.7 billion in the first month of this year. As a result of the upswing in sales, the ratio of inventories to sales was reduced from a high of 2.56 in early 1958 to 2.05 at the end of January, 1959.

PER CAPITA NET FARM INCOME



Source: U. S. Department of Agriculture.

Corporate Securities

New security offerings by United States corporations fell to $2.4 billion in the final quarter of 1958, compared with $2.9 billion in the previous quarter and $3.1 billion in the fourth quarter of 1957. The principal factor affecting the total volume of offerings was a decline of $550 million in issues by manufacturing corporations in the last three months of the year.

For the full year, security offerings totaled $11.6 billion. This figure has been exceeded only by the record $12.9 billion of offerings in 1957. The 10 percent decline reflected reduced plant and equipment expenditures by industrial groups and a drop in the demand for operating funds by sales finance companies. Of the net proceeds of $11.4 billion raised from new securities last year, $7.8 billion was earmarked for capital expenditures programs, compared with more than $9.0 billion in 1957.

Industrial Origin of National Income

National income in 1958 approached $360 billion, less than 1 percent below the 1957 record, according to preliminary figures reported by the Commerce Department. This was mainly due to the strong uptrend in service-associated activities during the year.

The increases in the flow of earnings from the communications and public utilities division, up 6 percent, and from government, up 7 percent, represented the largest year-to-year advances recorded in 1958. Income originating in finance, insurance, and real estate also continued to expand, as did income from business, professional, and other services. In total, this group of service-type industries generated about $6 billion more income in 1958 than in the preceding year and about $14 billion more than in 1956.

Except for agriculture, all other industry groups, i.e., those engaged in producing and handling commodities, experienced reductions in their respective contributions to the total flow of income. This was especially true in the durable goods manufacturing industries and in transportation. Income originating in the former fell from $68.9 billion in 1957 to $60.5 billion last year, a decline of about 12 percent; for the transportation group the decline was almost 6 percent.

Unemployment

The Census Bureau reported that unemployment failed to show the normal 50,000 decline in February. Instead, the number of jobless increased slightly, and as a result, the seasonally adjusted rate rose to 6.1 percent.

Census data, in thousands of workers, are as follows:

	Feb. 1959	*Jan. 1959*	*Feb. 1958*
Civilian labor force	67,471	67,430	67,160
Employment	62,722	62,706	61,988
Agricultural	4,692	4,693	4,830
Nonagricultural	58,030	58,013	57,158
Unemployment	4,749	4,724	5,173
Seasonally adjusted rate	6.1	6.0	6.7

IS THE DOLLAR WEAKENING?

GEORGE KLEINER, Associate Professor of Economics

On Christmas weekend of last year, twelve Western European countries formally announced that their currencies would henceforth be convertible for nonresidents. France combined this move with an official 17 percent devaluation of the franc and the announcement of an austerity budget designed to eliminate her international payments deficits; these moves were necessary in the face of convertibility and active participation in the Common Market.

These European developments elicited mixed reactions in the United States. For the most part they were greeted as proof of the increased economic strength of Western Europe. Some commentators foresaw an increase in United States exports. The recent decline in exports, which accentuated our downturn in late 1957, made this prospect particularly appealing for United States producers with excess capacity and limited domestic markets.

Other commentators saw in these moves a further proof that the dollar is getting "weak." They linked convertibility to the gold and dollar outflow that has persisted since 1950. Though pleased with Europe's economic strength, they emphasized our gold loss and added this "weakening" of the dollar to their arsenal of reasons for maintaining a high interest rate policy in this country.

Convertibility for Nonresidents

To understand what the recent moves mean and what effects they may have on the United States, it is necessary to glance briefly at the developments that led up to them. Under a completely free system, with no direct controls by governments, individuals and business concerns may buy or sell wherever they wish to, on the basis of price. They are also free to convert any currency into any other, in order to effect their international transactions. Thus prior to World War II, any foreign concerns selling goods or services or assets in Great Britain could sell the sterling they acquired in exchange for their own or any other currency. British residents were similarly free of direct restrictions. Countries were thus able to settle their international accounts multilaterally.

World War II halted this arrangement. Most countries that had not already done so imposed direct restrictions both on trade and on currency conversion. The restoration of the prewar free multilateral system became a principal objective of United States foreign economic policy. To this end we took a leading part in setting up the International Monetary Fund. And to this end we exacted from the British, as a condition of the 1945 loan, the promise that they would make current earnings of sterling by nonresidents fully convertible.

Our estimate of Britain's capacity to restore convertibility proved to be much too optimistic. The convertibility experiment in the summer of 1947 was a fiasco — a tragic one for Great Britain. The loss of dollars grew so enormous that convertibility was suspended. After this fiasco, the British proceeded to dismantle their controls more slowly. The improvement in their international payments, and the consequent increase in gold and dollar reserves, enabled them gradually to remove restrictions on what nonresidents might do with their sterling earnings.

By February, 1955, the British openly recognized the free markets that had existed as black markets for some years, in which earners of sterling from non-dollar areas could convert into dollars at a discount. The British then decided to use their monetary reserves to support the sterling rate in these markets, when necessary, in order to prevent it from falling to a significant discount in terms of the official rate. Since early 1955, the discount has seldom exceeded 1 percent. Thus in fact, if not officially, sterling earned by nonresidents has been convertible at virtually no discount.

The recent convertibility decision, therefore, largely legalizes what actually has been permitted for almost four years. It also has had the effect of shifting transactions in sterling that had formerly taken place in such free markets as New York and Zurich back to London. The London financial community obviously stands to gain by this change. But it is unlikely to have any significant influence on world trade and payments.

It might be asked, therefore, why the recent step was attended by such a fanfare of publicity. Possibly it is because official convertibility removes a safeguard. Sterling is an internationally held currency — perhaps 50 percent of world trade is transacted in sterling and foreigners hold substantial working balances or reserves in the form of deposits in British banks or in the form of short-term debts. Any shock to confidence, such as the Suez crisis, can lead to widespread flight from sterling into other currencies. Under the former arrangements, sterling in the free markets could be permitted to fall to a discount in the hope that the discount would itself discourage further conversion. Under present arrangements, with the government committed to maintain sterling within rather narrow limits vis-à-vis the dollar, a flight from sterling will drain the reserves, if it is persistent, and may even necessitate devaluation. There is thus a greater element of risk in the present arrangements.

It is for this reason, also, that convertibility of sterling has been emphasized, rather than convertibility of continental European currencies. Francs, marks, and the other currencies involved are not widely held by foreigners. Thus a worsening in their payments position does not entail the additional risk of capital flight by foreigners. This difference is partly a matter of historical development, partly a matter of deliberate British policy. In addition to the banking, foreign exchange, and other earnings involved, restoring the attractiveness of sterling

UNITED STATES BALANCE OF PAYMENTS

(Excluding military grant-aids; billions of dollars)

	1946-1949	1950-1951	1952-1956	1957	1958p
	annual averages				
US expenditures abroad:					
US imports	8.8	13.5	17.2	20.7	20.5
Merchandise	6.4	10.1	11.3	13.3	12.8
Services and military purchases	2.4	3.4	5.9	7.4	7.7
Govt. grants and capital (net)	6.2	3.5	2.3	2.6	2.6
Private capital and remittances (net)	1.3	1.6	2.1	3.9	3.4
Total	16.3	18.6	21.6	27.2	26.5
Foreign expenditures in the US					
US exports	16.8	16.3	19.3	26.5	22.9
Merchandise	13.3	12.1	14.0	19.3	16.2
Services and military sales	3.5	4.2	5.3	7.2	6.7
Long-term investments in the US (net)	−.1	.3	.3	.3	....
Transactions unaccounted for (net)	.7	.2	.6	.9	....
Total	17.4	16.8	20.2	27.7	23.2
Change in foreign gold and dollar assets through transactions with the US	−1.1	1.8	1.4	−.5	3.3
of which: US sales of gold	−1.1	.8	.2	−.8	2.3

Source: Department of Commerce. p Preliminary.

as an international reserve provides something of an added safeguard in return for the added risk: temporary deficits in Britain's payments position may result in an increase in sterling holdings by foreigners, so long as longer-run confidence remains intact.

Convertibility for Residents

The decisions last December concerned convertibility for nonresidents. Discrimination in international trade will persist, however, if residents continue to be restricted. They may then be compelled to buy and sell in other than the most advantageous markets on the basis of current prices.

Considerable progress has already been made in the removal of such restrictions as currency or exchange controls, and quotas, licenses, or other quantitative restrictions on trade. In 1949, prior to the establishment of the European Payments Union, only 30 percent of intra-European trade was free from quantitative restrictions, and much of this freedom was discriminatory in that it extended to some countries but not to others. By early 1957, about 90 percent of intra-European trade was quota-free, and all of the liberalization was made nondiscriminatory. Several countries, such as Belgium, Germany, Italy, the Netherlands, and Switzerland, have removed almost all direct restrictions on imports from EPU countries. This liberalization, together with economic growth, has fostered a spectacular increase in intra-European trade, amounting to well over 100 percent since 1949.

Restrictions on dollar imports have also been reduced. This has coincided with the increase in gold and dollar reserves of Western Europe since 1952. The reserves of Western Europe had fallen sharply from the end of World War II, when they amounted to $10.5 billion, to 1949. By 1952, they had recovered to about the immediate postwar level. From 1952 on, they have increased sharply, reaching over $20 billion by the end of 1958.

This increase in reserves made possible a sharp reduction in restrictions on imports from the Dollar Area, and further concessions have been promised for the near future. In Belgium, Germany, and Switzerland, virtually all restrictions have been removed, not only on imports but even on capital transfers for residents.

US Trade and Gold Outflow

The increase in gold and dollar reserves of the rest of the world, as a result of transactions with the United States, gained momentum in 1958 (see table). Aside from additions to gold stocks through new gold production, foreign countries purchased $2.3 billion of gold from us and at the same time increased their dollar holdings by $1 billion. If we single out the Western European countries, moreover, the increase in gold and dollar holdings was even larger, since they received net gold and dollars in transactions with other countries, mainly the primary producing countries. This multilateral earning of gold and dollars by Europe, through third countries, may be a necessary condition for the restoration of complete convertibility, resident as well as nonresident. Before the war, the United States typically ran a deficit in its trade with Asia and a surplus with Europe and Canada, and the transfer of Asia's net dollar earnings to Europe enabled the latter to cover its dollar deficit.

In 1958, however, Europe's indirect dollar earnings were particularly large — they ran to over $2 billion, at an annual rate, in the first half of 1958. Some of this transfer was perhaps speculative. The recession led to rumors that the United States would agree to an increase in the price of gold, hence led to some shift from dollar balances to gold holdings. Some of the transfer was probably due to relative movements of interest rates, which made a shifting of funds from the United States to Great Britain and other financial centers attractive. But much of it was due to the decline in prices of primary products. West European imports from primary producing countries, other than the oil exporters, were about $1.5 billion lower, at an annual rate, in the first half of 1958 than they had been in 1957, and much of this decline was due to price changes.

As a result of these developments, the gold and dollar reserves of the primary producing countries declined substantially. Such a decline is feasible for a year or two. The primary producing countries can temporarily continue with relatively high imports by reducing their reserves. Some of them, however, have already been compelled to reduce their imports, and any new downturn of activity in the industrial countries would force the primary producers to even more restrictive measures, since their reserves have already been depleted. Thus the very large 1958 increase in Europe's gold and dollar earnings by way of third countries should not be regarded as anything but temporary.

Similarly, the substantial direct flow of gold and dollars from the United States to Europe in 1958 was due mainly to a combination of temporary factors. (By the end of the year, the gold outflow had already subsided.) From the first half of 1957 to the first half of 1958, our exports declined much more than those of the other industrial countries. But a comparison with 1957 is misleading, since our exports then were swollen by the Suez crisis, particularly in the first quarter. Compared with the first half of 1956, also a period of booming world demand, our exports in 1958 declined much less. In two important countries, Japan and France, imports reached such high levels in early 1957, and reserves fell to such low levels, that a sharp retrenchment was inevitable. The decline of investment in Canada, and hence of its imports from us, was pronounced.

Much of the decline in our exports, as well as the preceding increase from 1956 to 1957, was due mainly to developments in particular commodities: petroleum, raw cotton, wheat, coal, iron and steel products, and automobiles. The movements in the first three of these commodities were due to particular, temporary developments. Coal and steel are especially sensitive to changes in business activity. Contributing to declines for these industries were the business setback in Western Europe, Canada, and Japan, particularly the decline in plant and equipment investment, and the enforced retrenchment of the primary producing countries. Only the change in automobile exports may be indicative of a deeper-rooted, longer-run trend.

Our imports in 1958 declined much less than our exports, just as they had increased much less in 1957. Ever since the 1930's, the world has stood in fear of a recession in the United States because of the anticipated effects of such a recession on our imports, and hence on the rest of the world's exports and reserves. The postwar recessions have proved to be much less injurious than was feared, partly because direct controls have enabled foreign countries to restrict imports, partly because the recessions thus far have been short-lived.

In 1958, some of our imports behaved in the expected cyclical manner. Thus our imports of industrial supplies and materials declined from an index of 100 in 1956 to 92, in volume terms, which compares with a like decline in our manufacturing production index. On the other

hand, some of our imports, such as finished manufactures and textile products, showed little change, while petroleum, meat, and automobiles actually increased.

As shown in the table, our surplus on merchandise trade dropped from $6 billion in 1957 to $3.4 billion in 1958, while other expenditures and receipts changed relatively little. Comparing 1958 with 1956, the major changes were a decline in our merchandise exports of about $1 billion, an increase in payments for services of about $700 million, and a decrease in foreign long-term investments in the United States of about $600 million. Our investments in foreign countries changed relatively little in the three-year period, but the composition did change somewhat in 1958. In all the changes on capital account, relative movements in interest rates were probably an important factor.

It would be foolish to view the gold outflow of 1958 with alarm. If European countries are to continue to reduce their restrictions on trade and restore complete convertibility, on residents as well as nonresidents and on capital as well as current transactions, some increase in our exports is likely. Hence we must do everything possible to maintain dollar supplies through imports, loans, and grants. The exceptionally large gold and dollar outflow of 1958 is not evidence of any long-term trend. Much of it was due to a combination of short-run changes that are not likely to repeat themselves.

It would be particularly foolish to conclude from the 1958 developments that the United States must adopt a restrictive monetary and fiscal policy in order to safeguard our gold stock, or that interest rates here must remain in line with interest rates in other financial centers in order to induce liquid balances to stay here, regardless of the state of employment in the United States. The United States still owns more than half of the world's monetary gold stock. Our gold stock is still far in excess of what we need as a reserve against deposits and currency under present gold reserve requirements. We are therefore in the fortunate position, unlike most other countries, of not having to adjust interest rates and monetary and fiscal policy in accordance with the balance of payments, rather than in accordance with employment and the price level.

Foibles of Monetary Policy

(Continued from page 2)

the risks of losses at these prices are severe. Yet, a kind of "liquidity illusion" has come to dominate the market.

Many investors seem to be buying on the theory that they are acquiring the only effective liquid asset. Stocks seem to have taken on the characteristics of money — stability of supply and lack of acceptable substitutes. Certainly the supply of stocks has been inelastic. And as prices and wage rates continued up through the recession, many acquired the attitude that cash or fixed claims could not provide a safe haven for investment funds; hence, the elasticity of substitution for common stocks fell to a low. The interactions of this liquidity illusion with the inflation phobia make it impossible to tell where the rise in prices will end.

Defining the Proper Goal

These are the developments by which monetary policy gets caught in a kind of "crack-the-whip" reaction. The turn from the low accelerates in a burst of speculative fervor, and the speculation, which is partly a reaction to the previous stimulus, seems to call for the use of drastic restrictive action. In the 1929 boom, the degree of restraint to be imposed on speculation was one of the most hotly debated issues of monetary policy. The fact that the Federal Reserve has power to control margins on stock trading helps to build the confusion of objectives into its operations.

To the Fed's credit, it has largely ignored the progress of the stock market into new high ground during the recent recovery. Its moderation has been evident in the lag in raising the discount rate and in its willingness to expand credit to meet peak seasonal demands.

A breakaway from this policy occurred early this month, with the spreading of the speculative movement to business inventories, particularly steel, and a new upsurge in consumer credit. There is as yet no demonstration that it is any more feasible or desirable to control this kind of speculative movement by monetary action than the kind on display in the stock exchange. An inventory upswing tends in part to generate its own sources of financing. Control is further hampered by the operations of nonbank financial intermediaries. Furthermore, these movements tend to be self-limiting. At the point where the need for action seems most acute, they have largely run their course, and action then poses the threat of an excessive reaction.

There is still the possibility that restrictive action may be effective with respect to investment in fixed capital. Keynes — following the lead of the Swedish School — displayed a strong conviction that the interest rate is important in determining the rate of new investment. However, much evidence has accumulated that investment is insensitive to interest rates in the short run. Thus, in the Keynesian system, the rate of interest becomes both an instrument of monetary policy and a device whereby that policy is temporarily rendered ineffective. On the one hand, a rise in the rate is supposed to restrict new investment; on the other, it induces a sacrifice of liquidity, so that funds flow out of hoards and the rise in velocity permits activity to continue unchecked. The distinction between the short and the long view here assumes critical importance. The adverse effect on investment will presumably be more enduring and depress activity throughout the economy after the initial period of adjustment.

In the current situation, policy can hardly aim at promoting an accelerating decline in the long-cycle components of investment as a way of achieving ephemeral anti-inflation goals. The Fed has been appropriately sensitive to the persistence of a relatively high rate of unemployment.

Although the Fed has thus operated discreetly within the policy framework it has set for itself, those who favor monetary controls most strongly may still sustain a fundamental criticism of its position. Little is to be found in its statements of policy or explanations of actions on a seemingly crucial question: Which markets or activities ought to be restricted or stimulated under the circumstances? The Fed has preferred to remain impersonal, aloof from the controversies of specific determination. It not only refuses responsibility for determining the rate structure but rejects powers of control over shifts from demand to time deposits, expansion of consumer credit, and the operations of nonbank financial intermediaries. The thesis that all must, or even can, be treated alike puts obstacles in the way of using existing and potentially available controls most effectively. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Handicapped Workers — Good Performers

Management Record, published by the National Industrial Conference Board, has reported the results of a survey conducted by DuPont's personnel department of its 1,021 physically handicapped employees. These employees were rated above average, average, or below average by their supervisors in terms of performance, safety, and attendance. The survey showed that almost half of the handicapped employees have above-average safety records, more than half have above-average attendance records, and more than 40 percent have above-average ratings in job performance.

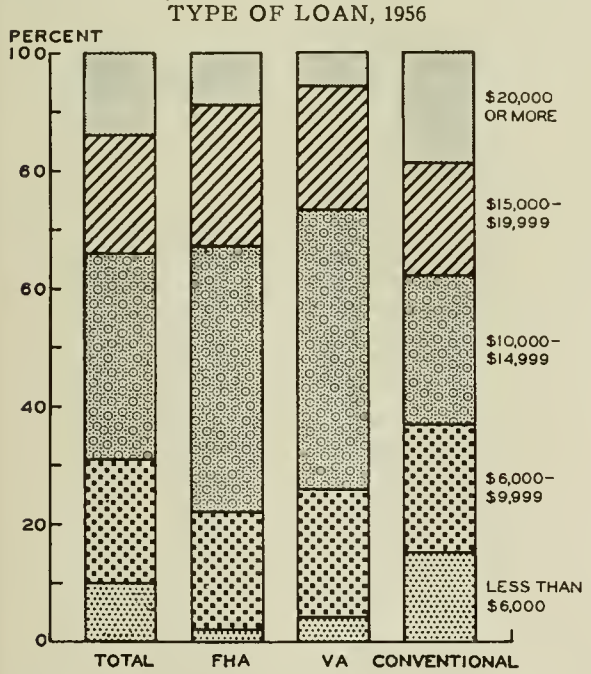
Other findings of the study indicated that persons who are handicapped when employed have better over-all records than do workers whose handicaps occurred after employment. Some of the best performers among handicapped workers are persons with the most severe types of handicaps — blindness, paraplegia, and amputation. Handicapped workers in the lower-level occupations such as craftsmen, service workers, and laborers have the poorest performance records of the whole group. Handicapped clerical workers have the greatest percent of persons with above-average attendance and job performance.

Continuous-Rail Welding

The Chemetron Corporation of Chicago announced recently a new rail-welding system that is calculated to save American railroads millions of dollars annually in track installation and maintenance costs and in reduction of damage to rolling stock and freight. Until recently, high costs due to the slowness of previous welding methods prevented railroads from using welded rails except at a few points having difficult maintenance and replacement problems. Surveys conducted in the last five years by the American Railway Engineering Association have shown that welded rail saved an annual average of nearly $1,000 for every mile of track laid.

The company's new automatic system operates at a rate two to three times faster than other rail welding methods. An entire welding operation is completed in about four minutes and requires a crew of only seven men. Rails are fed into the welding unit mounted on its own railroad car. Railends are electrically preheated under 30 tons of pressure and forged together with hammerlike blows of more than 50 tons of pressure. Then the joint is sheared of excess metal, smoothed, and tested.

PERCENT DISTRIBUTION OF MORTGAGED HOMES, BY MARKET VALUE AND TYPE OF LOAN, 1956



Source: U. S. Departments of Commerce and Labor, *Construction Review,* February, 1959, p. 6.

Survival for the Downtown District

The study director of the Committee for Economic Development recently presented the results of a three-year study of the New York City metropolitan region. The major conclusion of the study was that the central business districts of large cities in this country will remain alive for years to come, but only a continual decline was foreseen for the other areas extending to the fringe of the suburbs.

According to the CED, the survival of the downtown business district is dependent upon office activity, and a continued growth in office-type jobs is anticipated. Financial institutions and central offices for manufacturing, transportation, and utilities are obliged to remain in central business districts in order to tap the necessary supply of literate clerks from the entire area.

The CED concludes that for historical and financial reasons, the area between downtown and the suburbs is doomed, both as a place to live and as a place to work. Middle-income families historically have moved outward to the suburbs, leaving the lower-income families to occupy the urban housing, which eventually becomes slums. To reclaim this area, according to the CED, would require a much larger scale of new government-supported low-income housing than is now contemplated.

Financing of Owner-Occupied Homes

The February, 1959, issue of *Construction Review* summarizes some major findings of the 1956 National Housing Inventory on the financing of owner-occupied nonfarm homes and compares them with corresponding data obtained from the 1950 Census of Housing. At the time of the 1956 survey, 56 percent of all single-family, owner-occupied homes were mortgaged, compared with 44 percent in 1950. The outstanding debt amounted to $85 billion, or about three times as much as in 1950. This resulted both from the increase in the number of mortgaged properties from 7.1 million in 1950 to 12.7 million in 1956 and from the growth in the average size of loans.

Properties with FHA and VA loans were newer and more concentrated in the middle market value ranges than those with conventional loans. The report indicates that 67 percent of all VA properties and 56 percent of FHA properties were built between 1950 and 1956, compared with 38 percent of properties with conventional loans. In 1956 the majority of the FHA and VA loans were in the $6,000 to $15,000 market value range. The percentage of FHA and VA loans was very small on properties with market values under $6,000 and over $20,000 (see chart). Conventional loans accounted for all but 23 percent of the loans on homes with market values of $20,000 or more.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in January declined generally from the preceding month. The only major indicator with a substantial advance was construction contracts awarded, which rose 11 percent. The greatest declines were experienced in life insurance sales, off 25 percent, and coal production, down 11 percent from the December level. Seasonally adjusted department store sales in Chicago increased 10 percent and bank debits in selected Illinois cities dropped 9 percent.

Comparisons with January, 1958, show increased activity in all indicators, with the exception of life insurance sales, coal production, and farm prices. Weekly earnings in manufacturing increased 6 percent, bank debits 5 percent, electric power consumption 4 percent, and construction contracts awarded 3 percent.

Changes in Bank Debits

Monthly average bank debits of fifteen major Illinois cities totaled $16.1 billion in 1958, an increase of slightly more than 1 percent from the 1957 average of $15.9 billion. The total during 1958 ranged from a low of $14.1 billion in February to a high of $19.2 billion in December, a peak which exceeded any month during 1957. In the first half of the year bank debits showed a slight decline, with seven of the fifteen cities experiencing decreases in total bank debits. Only because of an upward swing during the last six months were bank debits able to show a small increase for the entire year.

Decatur, Peoria, and Rockford were the only cities where bank debits fell during the last half of 1958. Although Danville registered a gain in the last six months of 1958, it experienced the greatest percentage decline during the first half of the year, resulting in a drop of 3 percent for the entire year. The largest gain occurred in Champaign-Urbana where bank debits rose 8 percent, followed next by Bloomington with 7 percent, and Alton and Elgin with 6 percent each (see chart). Chicago, which accounts for slightly more than 90 percent of the total bank debits of the fifteen cities, made a recovery in the last half of 1958, enabling it to register a small increase for the entire year.

CHANGES IN BANK DEBITS, 1957 TO 1958

Source: Federal Reserve Board

Purchase of Chicago Newspaper

The recent purchase of the *Daily News* by Marshall Field, Jr., leaves Chicago with its four newspapers — *Tribune*, *American*, *Sun-Times*, and *Daily News* — but with only two publishers, each with a morning and an afternoon paper. In 1956, the morning *Tribune* invaded the afternoon field by purchase of the *American*. Although the Field interests are in a stronger competitive position as a result of the acquisition of the *Daily News*, the combined daily circulation of about 1.1 million of their papers is still below the circulation of the *Tribune* and the *American*. The combined revenues in 1958 from advertising amounted to $38.5 million for the Field papers and $75.3 million for the *Tribune-American* combine.

The *Tribune* is presently the most widely read of all Chicago newspapers, with a daily circulation of 900,000 and about $63.3 million in advertising revenue in 1958. The *Daily News* is next with approximately 548,000 daily circulation and $19.5 million in advertising revenue last year. The *Sun-Times* and the *American* have daily circulations of 534,000 and 467,000 respectively, and last year's advertising revenues amounted to $19 million for the *Sun-Times* and $12 million for the *American*.

Poultry Industry Declines

Illinois is ranked fifth in the nation in egg production, and its poultry industry contributes about 6 percent of the State's farm income. However, since 1950 the total number of chickens on Illinois farms has dropped 25 percent, and the number of laying chickens has fallen from 17 million in 1950 to 15.6 million in 1957. In spite of this decline in the number of laying hens, the State's egg production has remained fairly constant — 3 million in 1950 and 3.1 million in 1957 — because of improved feeding and breeding. These two factors have helped to increase the average annual production per hen from 173 eggs in 1950 to 197 eggs in 1957.

Waterflood Oil Production

In a recent Illinois State Geological Survey report entitled *Petroleum Industry in Illinois in 1957*, it is pointed out that Illinois oil production declined to 76.6 million barrels in 1957, a decrease of 7 percent from the 82.3 million barrels produced in 1956. However, waterflood oil production continued to expand, rising from 31.3 million barrels in 1956 to 36.1 million barrels in 1957. This represented an increase of 15 percent and accounted for 47 percent of the State's total oil production. The waterflood technique involves injecting water into the oil-producing rock formations to flush out more oil than could otherwise be pumped out.

Since 1942, when this method of increasing oil production began to be used in Illinois, there has been a rapid growth in the total number of waterflood projects. During the last eight years, there has been an advance of about 500 percent to a total of 382 projects in 1957. A cumulative total of 1.3 billion barrels of water has been injected in order to recover 146 million barrels of oil, or 9 barrels of water per barrel of recovered oil.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1959

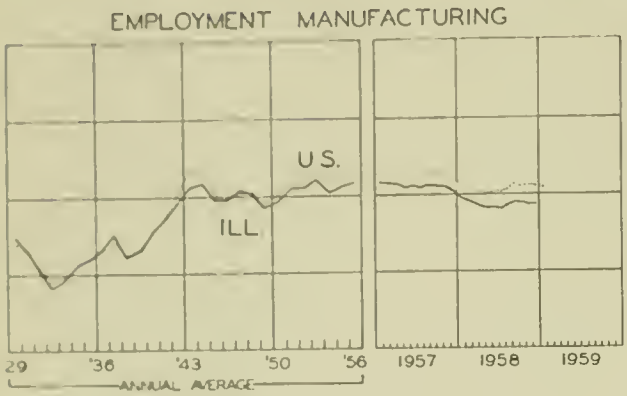
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$15,765[a]	1,266,312[a]	$698,246[a]		$17,414[a]	$17,714[a]
Percentage change from Dec., 1958	−29.0	+6.4	+26.4	−5.6	−9.2	−7.0
Percentage change from Jan., 1958	−31.0	+8.9	−1.1	0	+4.8	+25.8
NORTHERN ILLINOIS						
Chicago	$10,570	936,379	$506,073		$15,955	$14,970
Percentage change from Dec., 1958	−31.4	+4.9	+24.8	−5.5	−9.5	−8.6
Percentage change from Jan., 1958	−31.0	+7.1	−2.9	0	+4.7	+26.7
Aurora	$ 551	n.a.	$11,340		$ 73	$ 173
Percentage change from Dec., 1958	−37.9		+31.3	−5.8	+1.8	−0.4
Percentage change from Jan., 1958	−7.6		+9.7	+4.1	+2.3	+16.8
Elgin	$ 449	n.a.	$ 8,352		$ 49	$ 121
Percentage change from Dec., 1958	+18.8		+32.0	n.a.	−4.6	−11.5
Percentage change from Jan., 1958	+141.0		+7.0		+11.3	+8.3
Joliet	$ 254	n.a.	$13,730		$ 94	$ 156
Percentage change from Dec., 1958	−51.0		+27.7	−5.9	+1.5	−3.5
Percentage change from Jan., 1958	−44.4		+2.5	+3	+17.5	+25.6
Kankakee	$ 261	n.a.	$ 6,827		n.a.	$ 72
Percentage change from Dec., 1958	+61.1		+31.8	n.a.		−3.7
Percentage change from Jan., 1958	+141.7		−2.6			+30.6
Rock Island-Moline	$ 525	26,960	$13,386		$ 111[b]	$ 205
Percentage change from Dec., 1958	+17.2	+6.0	+26.7	n.a.	−6.3	+1.7
Percentage change from Jan., 1958	+19.9	+1.5	+2.7		+4.9	−4.5
Rockford	$ 584	52,272[c]	$23,956		$ 191	$ 317
Percentage change from Dec., 1958	−11.9	+7.3	+37.7	−6.4	−3.0	+8.6
Percentage change from Jan., 1958	−22.3	+8.0	+7.9	+7	+4.2	+18.7
CENTRAL ILLINOIS						
Bloomington	$ 72	9,625	$ 7,173		$ 70	$ 105
Percentage change from Dec., 1958	−67.1	+2.0	+30.3	n.a.	−19.0	−8.1
Percentage change from Jan., 1958	−94.2	+12.0	+4.8		−1.1	+11.2
Champaign-Urbana	$ 263	14,573	$10,250		$ 88	$ 154
Percentage change from Dec., 1958	−29.5	+2.3	+26.2	n.a.	+14.3	+5.2
Percentage change from Jan., 1958	+99.2	+14.5	+3.6		+19.3	+24.9
Danville	$ 190	14,361	$ 8,149		$ 55	$ 101
Percentage change from Dec., 1958	−4.5	+7.9	+38.7	−6.2	+3.3	+7.3
Percentage change from Jan., 1958	−69.1	+10.9	+5.8	+10	+10.0	+39.6
Decatur	$ 327	36,371	$14,750		$ 120	$ 179
Percentage change from Dec., 1958	−11.4	+8.4	+30.6	−6.0[c]	−4.0	+10.1
Percentage change from Jan., 1958	−47.1	+6.0	+1.3	+8[c]	−1.8	+25.1
Galesburg	$ 5	10,580	$ 5,930		n.a.	$ 63
Percentage change from Dec., 1958	−96.8	+11.5	+23.5	n.a.		+8.6
Percentage change from Jan., 1958	−95.5	+9.1	+4.3			+31.5
Peoria	$ 394	60,835[c]	$21,798		$ 231	$ 368
Percentage change from Dec., 1958	−47.9	+10.7	+31.7	−6.0[c]	−7.3	−3.4
Percentage change from Jan., 1958	+57.6	+20.2	+1.1	+8[c]	+6.8	+26.3
Quincy	$ 257	11,887[c]	$ 6,636		$ 47	$ 103
Percentage change from Dec., 1958	−76.5	+7.7	+32.9	−6.5	−12.6	+5.7
Percentage change from Jan., 1958	+71.3	+15.5	+5.5	−9	+4.8	+20.4
Springfield	$ 317	40,760[c]	$17,554		$ 136	$ 361
Percentage change from Dec., 1958	−29.4	+3.0	+27.7	−6.1[c]	−5.8	−0.4
Percentage change from Jan., 1958	+11.2	+7.7	+8.8	−4[c]	+5.7	+29.3
SOUTHERN ILLINOIS						
East St. Louis	$ 26	14,163	$10,219		$ 150	$ 132
Percentage change from Dec., 1958	−81.6	+6.5	+22.2	n.a.	−9.1	+42.0
Percentage change from Jan., 1958	−60.0	+8.2	+2.4		−3.2	+25.3
Alton	$ 339	26,280	$ 6,382		$ 43	$ 59
Percentage change from Dec., 1958	+1,030.0	+93.3	+38.6	n.a.	−13.3	+17.0
Percentage change from Jan., 1958	−77.0	+101.0	+0.6		+8.2	+32.0
Belleville	$ 381	11,268	$ 5,741		n.a.	$ 74
Percentage change from Dec., 1958	+60.8	+7.5	+30.0	n.a.		0.0
Percentage change from Jan., 1958	+105.9	+6.3	+1.7			+35.6

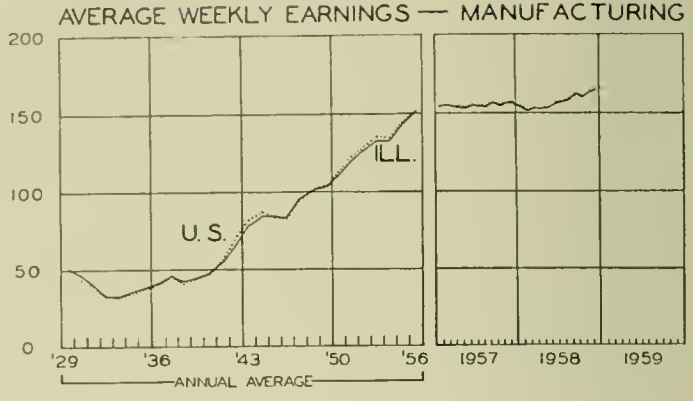
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

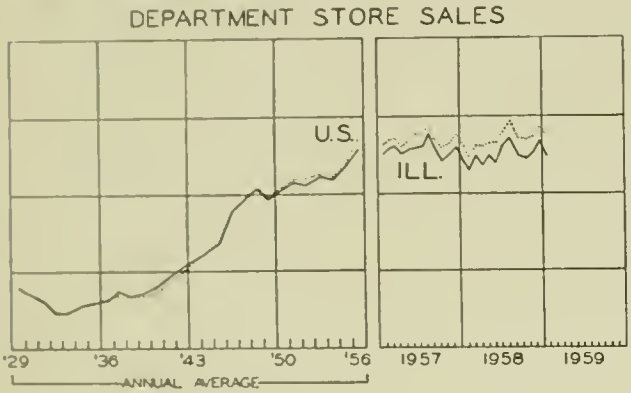
Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for December, 1958. Comparisons relate to November, 1958, and December, 1957. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending January 9, 1959, and January 10, 1958.

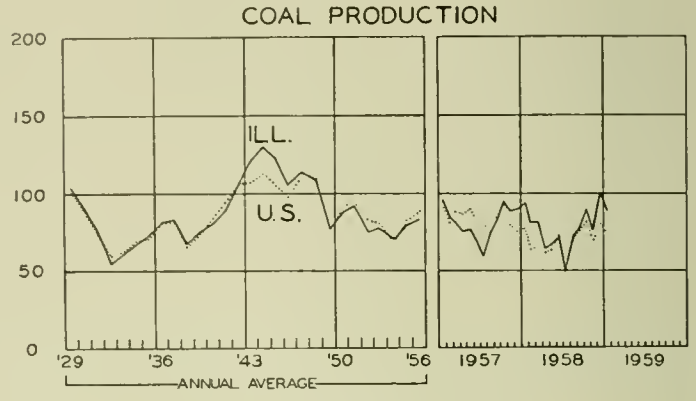
INDEXES OF BUSINESS ACTIVITY

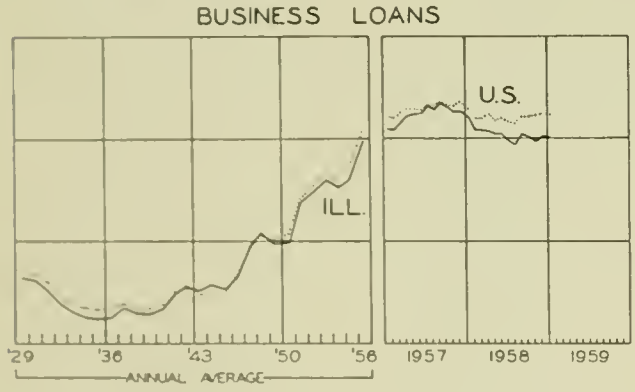
1947-1949 = 100

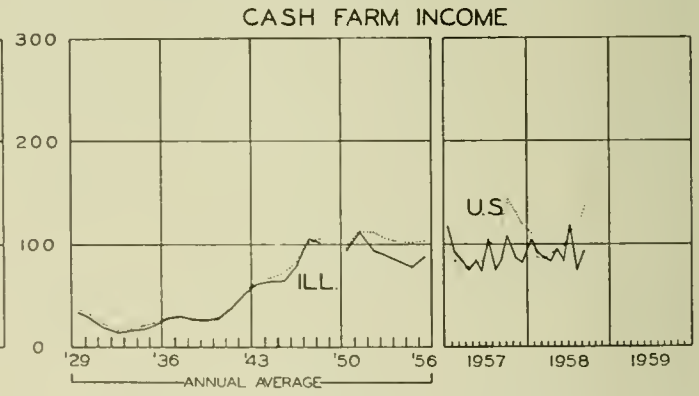


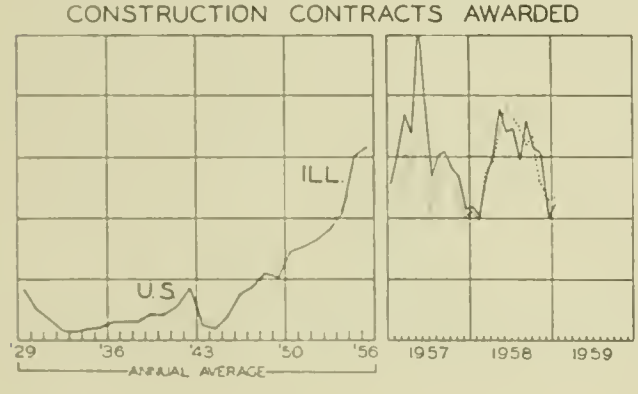


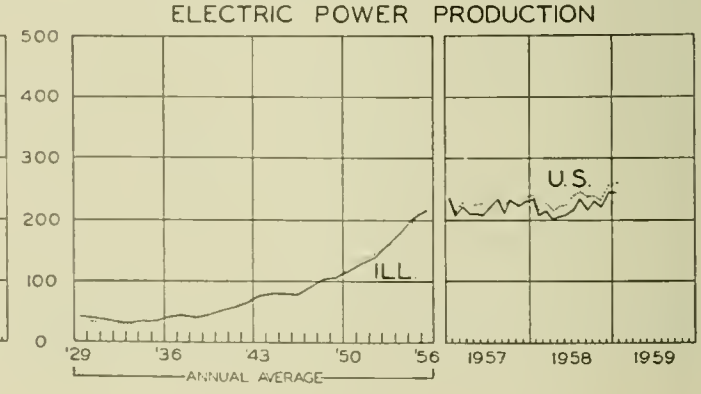












ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

The pace of recovery stepped up somewhat in March as inventory accumulation expanded business spending. The index of industrial production moved up 2 points, after seasonal adjustment, to a new record of 147 (1947-49 = 100), one above that last recorded in February, 1957. Steel was turned out at a record rate and automobile production approached the March, 1957, figure. Employment rose to 63.8 million from 62.7 million in mid-February, an increase of 600,000 after seasonal adjustment. Unemployment dropped slightly below 4.4 million, an adjusted decline of 167,000.

Other indicators reflected the general improvement in business. Department store sales rose to 141 percent of the 1947-49 average, 3 points above the adjusted February figure. Paperboard production and electric power output were at record levels and freight carloadings advanced seasonally. Wholesale prices generally were steady, with sensitive commodity prices recovering moderately.

Auto Sales, Output Rise

Retail deliveries of new passenger cars in March were the highest since December, 1957. With 26 selling days in the month, the estimated 490,000 units sold amounted to about 18,800 a day, 12 percent above the February average and 35 percent above that of March, 1958.

March output of passenger cars also picked up sharply, rising 20 percent over February to 576,000 units. This was 61 percent above March of last year, when production was at the lowest for the month in ten years.

Further sizable additions to dealer inventories occurred in the month, bringing the total well over 800,000 cars. At the March selling rate, this amounted to about 45 days' supply.

Construction Rate Levels

Outlays for new construction rose seasonally in March to $3.8 billion. After seasonal adjustment, the total amounted to an annual rate of $54.5 billion, about the same as for January and February. This leveling in the last three months followed one of the sharpest increases in the postwar period. Between May, 1958, and January of this year, the annual rate of construction spending rose $8.0 billion. Currently, it is 9 percent above the December, 1957, rate, when construction was at its pre-recession high.

Private construction was down slightly from February on a seasonally adjusted basis, whereas public expenditures rose a little. However, these two categories and their components have also been fairly steady in the past three months. Private residential construction held at a high level, while industrial building continued low. Public spending on highways and military facilities has leveled off in the first quarter after an earlier rise.

Inventories, Sales Up

Fear of a steel strike in June contributed to increases in manufacturers' inventories, sales, and new orders in February. On a seasonally adjusted basis, the book value of their stocks rose to $49.8 billion from $49.5 billion at the end of January, all of the gain occurring in durables and mostly reflecting a build-up of steel supplies. This advance pushed total manufacturing and trade inventories up $350 million to $85.9 billion. Stocks of retailers held steady at $24.2 billion and those of wholesalers at $11.9 billion.

Sales of manufacturers accounted for $400 million of the $700 million increase in total manufacturing and trade sales, with durables contributing three-fourths of the addition in the primary group, in part the result of high steel-buying activity. Sales gains of $200 million by wholesalers and $100 million by retailers lifted the former's total for the month to an adjusted $12.0 billion and the latter's to $17.6 billion. Sales of all three groups amounted to $58.1 billion.

A rush of steel users to get their supply was instrumental in pushing new orders received by manufacturers to an adjusted $29.8 billion, up $1.3 billion over January and $5.7 billion over February a year ago. Most of the gain over January was in durables. Unfilled orders rose $1.5 billion to $49.2 billion.

Consumer Debt Continues Rise

Consumers were adding to their short- and intermediate-term debt at an annual rate of $5.4 billion in February, bringing the total outstanding at the end of the month to $44.1 billion. This increase in total consumer debt was somewhat lower than the January addition. Instalment debt was up an adjusted $333 million to $33.8 billion, with slightly more than half of the increase resulting from the purchase of automobiles. Other consumer goods paper and personal loans each rose about $70 million.

Single-payment loans were the principal element in the adjusted advance of $118 million in noninstalment credit, which brought this category to $10.3 billion at the end of the month.

THE 1958-59 RECOVERY: CAN IT BE SAVED? · By E. Janeway and P. Trumbull · Page 6

ILLINOIS BUSINESS REVIEW

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The "Threatening" Steel Strike

The probability of a lengthy steel strike has moved toward near-certainty in recent weeks.

The fact that both management and labor are committed to "tough" negotiating may be discounted. What cannot be discounted is the current high rate of inventory accumulation. Steel consumption is lower than at the peaks of 1956 and 1957, when inventories were also being accumulated. Steel production, on the other hand, has moved up to new record highs in recent weeks, so that the rate of accumulation is now far greater. Industry estimates place it at over 20 percent of capacity, or an annual rate of over 30 million tons. Industrial buyers of steel report that they expect to accumulate almost two months' excess by June. The only way these excess stocks could be quickly and easily liquidated is by a strike.

The Industry Situation

In the fourth quarter of 1958, steel consumption was about in line with production at about 70 percent of capacity. The industry faced the prospect of dragging along at this comparatively unsatisfactory rate, which would tend to keep its price structure under pressure. It warned buyers that shortages or price increases would be likely in the event of a strike. At first, the invitation to stock up was ignored, but after the turn of the year the auto industry decided to hedge against the strike and "advised" its parts suppliers to be prepared to meet delivery schedules next fall. This started a rush of ordering that lifted operations to over 90 percent of capacity within two months.

These developments in effect create an obligation on the part of the steel industry. Only a tough "hold-the-line" stand would justify the policies of all the industry's customers who are now "investing" in its products. A quick settlement might make them look foolish and would depress steel production through the last half of the year.

The industry is well aware that in the absence of some such development as a new threat of war, the surplus stocks now being accumulated will have to be liquidated in a limited period. Some customers will practically be out of the market in any case during the third quarter. C. M. White, chairman of Republic Steel, made the point bluntly, "Whether there is a steel strike or not, the volume of this year's business is likely to be the same."

In fact, the total volume may well be higher this year because the speculative accumulation of inventories has created an aura of high prosperity, if not of full employment. Furthermore, if inventories should be substantially liquidated during a strike, the rebound in production afterward would temporarily prolong optimism. Thus, it may be argued that a strike would be of rather general benefit, so that no one need get excited about possible "damage" to the economy when it occurs.

It is widely assumed that the steel industry can afford a shutdown of at least two months' duration beginning July 1. The question is whether it can afford much less: If a strike did not continue long enough to create at least some shortages, there would be little clamor for a settlement and little willingness on the part of buyers to accept the higher prices which would presumably derive from the new labor contract.

The Workers' Alternatives

The workers' position is generally considered to be weaker. They had a taste of unemployment and reduced pay envelopes last year. Not all have been rehired; some 200,000 steel workers are reported to be still unemployed. For many others, finances have been impaired. Moreover, they understand the threat that available inventories will make the strike a long one. Nevertheless, to refrain from striking may look like the poorer alternative.

Internal politics will help keep the union leadership under pressure to obtain wage increases and better fringe benefits. Dissension flared up within the union when the increase in union dues was put into effect in 1956, and without some return in higher wages the opposition may gain strength. The auto workers settled for moderate increases last fall, after working for weeks without a contract. The result is generally regarded as "soft" in labor circles, and the steel workers will hold out for something better.

The industry's success in achieving new production records encourages the union view. It not only gives the impression that market conditions justify increases but it has raised profits enough to give weight to union claims that wage increases could be granted without price increases. The fact that more steel is being produced with fewer workers supports their claim that rising productivity justifies higher compensation.

The threat of unemployment inherent in a strike is not likely to frighten the union unduly. The leadership — if not all the individual members — knows full well that it will be necessary to suffer the unemployment required to liquidate the excess inventories in one way or another. If a strike is avoided and the industry operates at, say, half capacity, many workers are bound to be wholly or partially unemployed. Some will be laid off and others put on short hours. Many will prefer a full-time "vacation" for a while to partial unemployment and reduced wages over a longer period. In fact, one of their reported demands calls for spreading the work through periodic extended vacations.

Furthermore, there is little reason to believe that the workers as a group will lose much financially from a strike. Unemployment compensation will be lost, but this loss will be partially offset by strike benefits and public assistance. Then, each day worked after the settlement will repay part of the loss — and at a rapid rate if overtime operations are required.

(Continued on page 8)

DRUGS — A LARGE, GROWING INDUSTRY

The drug and pharmaceutical field has been one of the fastest growing industries — if not the fastest — in the United States during the past two decades. Sales of the industry rose sharply from $300 million in 1939 to nearly $2.5 billion last year. Among the factors responsible for this growth have been (1) increased consumer disposable income, (2) broad new developments and discoveries by private research, (3) enormous government expenditures for medical research during hostilities and generous research grants and awards by government during peacetime, and (4) greater health insurance coverage.

The drug and pharmaceutical industry is divided into two principal categories: ethical and proprietary. Ethical drugs, which are usually prescribed by a physician, made up about three-fourths of total dollar sales last year. The other one-fourth was derived from proprietary drugs, which are generally sold over the retail counter as brand-name products.

Research plays an important role in the industry, especially among ethical drug producers. Illustrating the emphasis on research is the fact that expenditures for research in the entire industry were equal to about 7 percent of total sales last year, whereas similar expenditures amounted to only about 2 percent for industry in general. The competitive stress on development of new drugs and medicines has brought about countless varieties of products. It has been estimated that more than 90 percent of prescriptions written today could not have been filled in 1939.

Nationally, the industry is very widespread. Nearly every state has some type of drug or pharmaceutical manufacture, although the greater share of total production is performed in the East and Midwest. In all, there are nearly 1,400 drug-manufacturing establishments, employing about 100,000 persons.

Illinois Ranks Third

Illinois was the third largest producer of drugs and pharmaceuticals in 1954. Shipments of the 102 establishments in this State were valued at more than $167 million. This figure was exceeded only by New York and New Jersey.

The industry employs approximately 8,500 workers in Illinois. The establishments here, like those of the industry as a whole, have a characteristically low ratio of production workers to total employment (5 to 8) because of the large number of persons engaged in merchandising and research.

Of the four principal product classifications, pharmaceutical preparations, such as tablets, ointments, and solutions, accounted for 94 percent of the total value of shipments in the State during 1954. During the same year, Illinois ranked among the top five states in manufacture of the other three product types (biological products, medicinal chemicals, and botanicals) even though the combined value of its shipments of these three was only $10 million.

A large portion of the industry in Illinois is located in Cook County, where the State's two largest firms — Abbott Laboratories and G. D. Searle Company — are established. Together, these two firms employ more than half of the drug and pharmaceutical workers in the State.

The Industry and Progress in Health

Life expectancy in the United States has stretched from 65 to 72 years since the end of World War II; it was 35 years in 1900. Many advances in health and longevity can be attributed to the drug industry. A large proportion of new, life-saving drugs have been developed by ethical drug manufacturers, whose expenditure for research generally is two to three times that of the proprietary drug-makers.

Among the most successful products developed in the last twenty years have been antibiotics, which are produced from molds for counteraction against various forms of bacteria. Antibiotics accounted for about one-fourth of all ethical drug sales in 1956. The two leading antibiotics in sales volume are tetracycline, first produced in 1953, and penicillin, sold commercially since 1942. Most antibiotics can be used to fight a variety of diseases. In addition to human use, they have been used extensively for improvement of health and growth of farm animals; nearly one-third of the total volume goes for this purpose. Also, preservation of food by antibiotics has been tried successfully with poultry and soon may be used on other types of foods.

One of the historic postwar discoveries is the Salk vaccine which has markedly reduced polio incidence. Another important development is a tuberculosis vaccine produced from human bacilli instead of bovine bacilli; so far it has had only limited application.

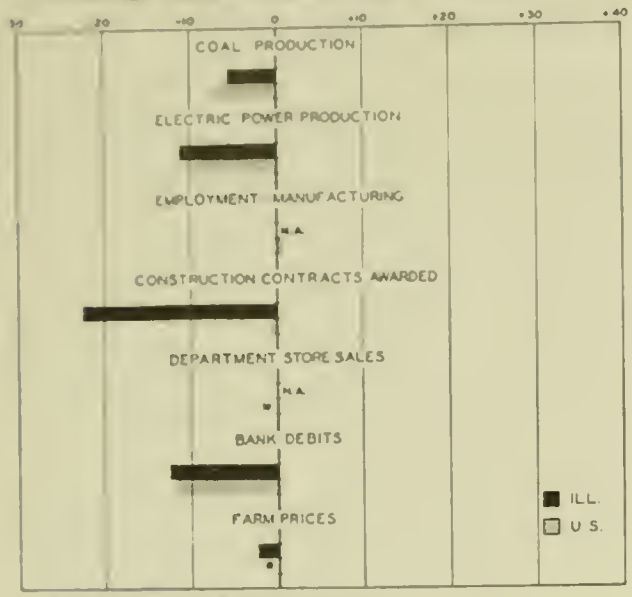
A growing recognition of mental illnesses has stimulated production of a number of new drugs called tranquilizers. Although no single cure for mental illness has been found, a number of these new drugs for limited use in treatment of psychoses and neuroses are now available. Tranquilizer sales, which were nearly nonexistent in 1953, rose to about $175 million last year even though most of these drugs are obtainable only by prescription. Nearly 20 percent of the total output is used in federal and state institutions.

Progress has been slow against today's two major killers — cancer and heart disease. Although no effective agent is available for either malady, hormone therapy has supplemented surgery and radiation for treatment of cancer, and a few new antibiotic products have been tried with success on young tumors. Producing a drug for heart disease is difficult because of the numerous types of heart disorders. Nevertheless, the industry hopes to develop effective drugs for cardiovascular diseases by 1962 and for cancer by 1965. As the secrets are found for curing the many illnesses and diseases which threaten us today, the markets of the industry should continue to expand.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1959, to February, 1959



* No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Feb. 1959 (1947-49 =100)	Percentage change from Jan. 1959	Percentage change from Feb. 1958
Electric power[1]	216.4	−11.3	+ 4.0
Coal production[2]	83.7	− 5.7	+ 3.5
Employment—manufacturing[3]	n.a.		
Weekly earnings—manufacturing[3]	n.a.		
Dept. store sales in Chicago[4]	118.0[a]	+ 5.4	+ 6.3
Consumer prices in Chicago[5]	127.1	0.0	+ 0.7
Construction contracts awarded[6]	174.6	−22.5	−13.4
Bank debits	174.0	−12.7	+ 7.5
Farm prices[7]	81.0	− 2.4	− 5.8
Life insurance sales (ordinary)[8]	255.1	+ 0.7	+ 4.0
Petroleum production[9]	115.4	−10.0	+ 7.3

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1959	Percentage change from Jan. 1959	Percentage change from Feb. 1958
	Annual rate in billion $		
Personal income[1]	364.5[a]	+0.4	+ 4.9
Manufacturing[1]			
Sales	342.0[a]	+1.4	+11.8
Inventories	49.8[a, b]	+0.6	− 5.1
New construction activity[1]			
Private residential	16.4	−5.5	+27.0
Private nonresidential	13.6	−3.3	− 5.1
Total public	11.7	−7.7	+16.6
Foreign trade[1]			
Merchandise exports	16.8[c]	−7.5	− 6.9
Merchandise imports	13.9[c]	−7.9	+ 5.3
Excess of exports	3.0[c]	−5.4	−39.8
Consumer credit outstanding[2]			
Total credit	44.1[b]	−0.8	+ 2.4
Instalment credit	33.8[b]	−0.1	+ 1.3
Business loans[2]	30.3[b]	−0.1	− 0.6
Cash farm income[3]	34.3[c]	−5.7	+ 5.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	144[a]	+0.7	+10.8
Durable manufactures	155[a]	+1.3	+13.1
Nondurable manufactures	138[a]	+0.7	+10.4
Minerals	124[a]	+0.8	+ 5.1
Manufacturing employment[4]			
Production workers	96	0.0	+ 1.0
Factory worker earnings[4]			
Average hours worked	100	−0.3	+ 3.6
Average hourly earnings	165	0.0	+ 4.3
Average weekly earnings	164	−0.3	+ 8.1
Construction contracts awarded[5]	233	−0.5	+18.1
Department store sales[2]	138[a]	0.0	+11.3
Consumer price index[4]	124	−0.1	+ 1.0
Wholesale prices[4]			
All commodities	120	0.0	+ 0.4
Farm products	91	−0.4	− 5.2
Foods	108	−1.0	− 2.1
Other	128	+0.2	+ 1.6
Farm prices[3]			
Received by farmers	90	0.0	− 1.1
Paid by farmers	119	0.0	+ 2.6
Parity ratio	82[d]	0.0	− 3.5

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for January, 1959; comparisons relate to December, 1958, and January, 1958. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959					1958
		March 28	March 21	March 14	March 7	Feb. 28	March 29
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,302	1,323	1,271	1,286	1,373	1,215
Electric power by utilities	mil. of kw-hr.	12,709	12,900	12,996	12,945	12,972	11,645
Motor vehicles (Wards)	number in thous.	148	161	159	157	153	112
Petroleum (daily avg.)	thous. bbl.	7,193	7,203	7,155	7,213	7,199	6,264
Steel	1947-49 = 100	153	153	151	148	145	79
Freight carloadings	thous. of cars	604	603	595	596	576	532
Department store sales	1947-49 = 100	141	137	124	118	118	114
Commodity prices, wholesale:							
All commodities	1947-49 = 100	119.3	119.4	119.3	119.2	119.1	119.7[a]
Other than farm products and foods	1947-49 = 100	127.8	127.8	127.7	127.6	127.5	125.7[a]
22 commodities	1947-49 = 100	86.8	86.2	85.5	84.3	84.2	85.5
Finance:							
Business loans	mil. of dol.	31,170	31,215	30,671	30,301	30,258	30,658
Failures, industrial and commercial	number	297	292	311	288	296	327

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1958.

RECENT ECONOMIC CHANGES

Business Capital Expenditures

The latest survey by the Securities and Exchange Commission and the Department of Commerce indicates that businessmen are planning to spend about $1.3 billion more on new plant and equipment in 1959 than they spent last year. Total capital expenditures for 1959 are expected to reach $31.8 billion, well below the record $37 billion of 1957 and the $35 billion of 1956.

BUSINESS CAPITAL EXPENDITURES
(Millions of dollars)

	Actual 1958	*Anticipated 1959*	*Percent change*
Manufacturing	11,433	12,274	+7
Durable goods	5,469	5,827	+7
Nondurable goods	5,964	6,447	+8
Mining	941	932	−1
Railroads	754	753	...
Non-rail transportation	1,500	1,900	+27
Public utilities	6,088	6,143	+1
Commercial and other	9,810	9,790	...
Total	30,526	31,792	+4

The joint report showed that actual spending in the final three months of 1958 rose to an adjusted annual rate of about $30 billion, compared with the third-quarter low of $29.6 billion. At the same time the agencies revised the first period 1959 estimate upward to $31.2 billion and indicated that second-quarter spending was expected to run slightly over $32 billion. Thus, with first half expenditures for plant and equipment projected at a rate about equal to the anticipated total for the year, the annual rate of business outlays in the second half of 1959 is not expected to show any strong upsurge.

Consumer Attitudes

Preliminary findings of the annual Federal Reserve Survey of Consumer Finances indicate that consumers are more optimistic than they were last year, but not outstandingly so. Although they expect their earnings prospects and business conditions to be better in 1959, their spending plans do not approach the proportions necessary to sustain a boom year for sales of new cars and other big items.

Reflecting the recovery in economic activity, the proportion of those polled who expect to have higher earnings this year rose to about 42 percent, compared with 37 percent early in 1958; only 7 percent look for a drop in earnings in 1959. At the same time 55 percent expressed confidence that a good business year is ahead, compared with 31 percent last year. However, some 61 percent of consumers, a big jump over 1958, are convinced that prices will resume their upward movement.

In contrast to the optimistic view on earnings and general business activity, the proportion of those surveyed who plan to make major expenditures this year is only moderately larger than in 1958. The only substantial improvement in buying plans involves the purchase of homes. The percentage who expect to be home buyers in 1959 rose to 9.3 compared with 7.5 in 1958. This year's figure is close to the postwar high of 9.4 percent in 1955 and 1956. Planned purchases of new automobiles, however, were up only slightly. In addition, consumers who are planning home repairs and purchases of furniture and other major household items expect to spend less for these purposes than they did in 1958.

U. S. Income and Output

Real national output of goods and services has increased by more than 40 percent since the end of World War II, according to a study released recently by the Commerce Department. The report, entitled *U. S. Income and Output,* provides an enlarged set of national income statistics, extending GNP estimates back to 1909, and features an analysis of postwar economic developments.

The report shows that GNP, in real terms, has quadrupled during the 50 years since 1909 and has averaged a growth rate of about 3 percent per year. With some allowance for exceptional conditions arising from the war, the report concludes that the postwar economic advance, often described as a period of unprecedented economic growth, has actually been broadly in line with the longer-period trend.

During this 50-year period, output has risen twice as fast as population. At the same time, productivity, measured in terms of output per hour worked, has increased at an annual average of about 2 percent.

Consumer Income and Buying Patterns

In a review of consumer purchasing and income patterns published in the March *Survey of Current Business,* the Commerce Department reported that, in real terms, consumer purchases of goods and services have shown a fairly stable relationship to income during periods of high-level economic activity. For the period of the twenties and the post-World War II years, the ratio of expenditures to real personal disposable income has fluctuated closely around a 94 percent average.

The study also shows that the cyclical relationship between consumption and income for each of the three major groups of expenditures differs from the secular trend. In the long run, an increase of 1 percent in real income is associated with an increase of 1.2 percent in spending for durable goods, 0.9 percent for nondurables, and 1 percent for services. However, during swings in the business cycle, the response of durable goods purchases to income changes is pronounced, whereas that of nondurables and services is much less sensitive.

Employment

The number of jobless dropped 387,000 last month as the result of improved weather conditions which stimulated construction and other outdoor activities. The decline in unemployment was much greater than the 4.9 percent reduction which government statisticians consider seasonally normal for this time of year. However, the improvement this year was exceptionally large because bad weather in the preceding month delayed the rise in job openings which usually begins in February.

The 1.1 million gain in the number of employed during March also reflected expanded automobile production following the glass-industry strike and stepped-up activity in the steel industry as users bought heavily in anticipation of a strike or price boost this summer.

Census data, in thousands of workers, are as follows:

	Mar. 1959	*Feb. 1959*	*Mar. 1958*
Civilian labor force	68,189	67,471	67,510
Employment	63,828	62,722	62,311
Agricultural	5,203	4,692	5,072
Nonagricultural	58,625	58,030	57,239
Unemployment	4,362	4,749	5,198
Seasonally adjusted rate	5.8	6.1	7.0

THE 1958-59 RECOVERY: CAN IT BE SAVED?

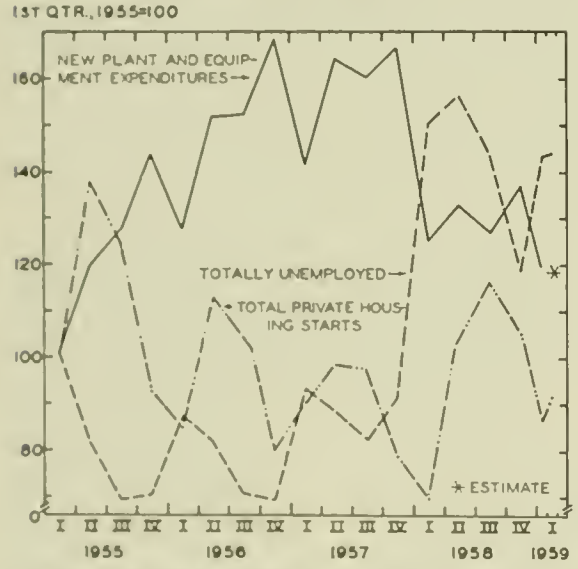
ELIOT JANEWAY and PATRICIA TRUMBULL

Playing numbers games about the extent and duration of the business recovery has become every businessman's favorite "do-it yourself" hobby. Current speculation about the 1959 business outlook revolves around four major questions. Can the economy enjoy a genuine upturn in the face of high levels of unemployment? How long can the business recovery remain a recovery without benefit of support from the trend making capital goods sector of the economy? Will the 1959 auto model be a substantial success, after all? Will the 1958 housing boom be revived in 1959, or can the 1959 recovery get along without support from residential construction?

Chart 1 is, therefore, designed to provide some historical perspective on three of 1959's major question marks: housing, capital investment, and unemployment — since 1955, the last full fledged "boom" year enjoyed by the economy. As the chart shows, 1955 started off as a clear cut case of business recovery: housing starts were rising sharply; capital investment was embarking on its still more dramatic rise; and unemployment, understandably, was being reduced at a rapid rate. But unemployment began to creep upward again seasonally during the final quarter of 1955 — when both housing and capital investment were falling simultaneously.

The year 1956 was a good one for business, too, but a distinctly different kind of good year from 1955. The 1955 housing boom petered out in 1956; but the 1955 capital investment boom broke through to new highs. In 1956, as in 1955, it took the combination of falling housing starts and a faltering in capital investment to bring about a significant (if temporary) increase in unemployment. In 1957, the housing trend bottomed out; but capital investment was able to continue supporting the economy by holding at close to peak levels. Unemployment did not assume crisis proportions until housing starts and capital investment were once again falling simultaneously — this time sharply enough to help produce the late 1957-early 1958 recession.

CHART 1. INVESTMENT AND UNEMPLOYMENT



Source: Janeway Publishing and Research Corporation.

In 1958, the interplay between capital investment and residential construction reasserted itself as it does every year, but this time in a strikingly dramatic way. The capital goods boom had clearly run out of steam, and had turned into a capital goods slump. But a new housing boom got underway in time to lead the economy out of the 1957-58 recession. Unemployment began to decline as soon as housing starts began to recover. But, by early 1959, unemployment had risen back towards pre-recovery levels as both housing starts and capital investment again became simultaneous "drags" on the economy.

Plant and Equipment Hold Back

Both the Administration and the monetary authorities are still clinging to the wishfully optimistic view that the economy can enjoy a sound business recovery in the face of high levels of unemployment. But the business facts of the past several years indicate that this isn't likely. Unemployment rose very little after the 1955 boom had gotten underway. But after the 1957 slump had gotten underway, unemployment was overnight magnified from a passing economic problem into a political issue.

Now, despite the fact that 1957 brought the beginnings of business recovery, unemployment is nevertheless remaining at pre-recovery levels. This is a new and disturbing economic phenomenon. And it raises new and disturbing questions about the 1958-59 recovery. To what extent is the alarmingly high level of unemployment an effect of 1958's business conditions? And to what extent can it be expected to act as a cause of 1959's business conditions?

The current high level of unemployment does indeed partially reflect the fact that the 1958 recovery led by the housing industry never did outgrow its spotty beginnings. The question is whether it will have an opportunity to do so in 1959. As the history of recent years suggests, 1959 will not be a good business year unless (a) capital investment recovers enough and soon enough to take over the leadership role it played in 1956, or (b) the housing boom which peaked last October is revived relatively early in 1959.

The current high level of unemployment not only reflects the fact that 1958 was a year of something less than full recovery, but also suggests a fundamental reason why no revival of the capital goods boom is likely to make 1959 a year of full recovery, either. The obvious reason why no new capital goods boom is imminent is, of course, the absence of any shortage of industrial capacity at this time. But the high level of unemployment suggests another less obvious but equally compelling reason why capital investment cannot be expected to lead the economy sharply upward during 1959.

Business is not likely to embark upon a new round of capital expansion until after a major round of inventory accumulation has paid off. Admittedly, a major speculative run-up in inventory buying is underway right now. The question is whether it will pay off. And this question is very much more political than economic. For 1959's round of inventory speculation — notably, of course, in steel and copper — is based at least as much on fears of severe and prolonged labor trouble as it is upon hopes of a significant and protracted increase in net demand.

The prevailing high level of unemployment suggests, however, that current fears of labor trouble — and the current wave of inventory speculation initiated as a hedge against it — may be somewhat exaggerated. In recent postwar years in which "big" labor contracts expired, pre-strike inventory hedging has often proved profitable. This was the case in 1956, for example. But 1959 is no 1956. Business conditions are much less stable, and unemployment is clearly a much more serious problem now than it was then. This means that labor is much less likely to be militant. Purchasing agents who have joined in on 1959's buying binge may, therefore, wake up sometime during the third quarter to discover that they bought "too much, too soon." Any third quarter inventory "hangover" would hardly be a likely prelude to a new revival in capital expenditures.

Housing under a Cloud

This leaves housing as the next obvious candidate for the role of recovery pacemaker. Both the Administration and the monetary authorities are bullish enough to think that the recovery is so far advanced that it can (and, indeed, should) get along this year without benefit of another housing boom à la 1958. The fact that housing starts are now rising seasonally will very likely help reassure the President in his belief that a major housing bill this year would be not only undesirable from an inflationary standpoint but unnecessary from a recovery standpoint.

The fact is, however, that the housing boom may be coming under a cloud. The primary reason for worrying about the 1958-59 housing boom centers around the operations of the federal housing agencies. These agencies exert tremendous leverage on the over-all housing trend — both on the upside and on the downside. This is largely because it is low-priced mass housing which is supported by VA and FHA assistance; and the low-priced mass housing market is where the enormous, truly insatiable, growth demand is to be found. Last year's over-all housing boom was spurred and supported by the combination of (a) easy money conditions, (b) emergency help for housing from Congress, and (c) the resultant sharp pick-up in federally sponsored starts. In October, at the peak of the housing boom, federally sponsored starts had recovered enough to account for over 42 percent of total housing starts, as against something over 20 percent before the recovery began.

Mass demand for housing sponsored by VA and FHA is still strong, as the recovery in applications for assistance indicates. But this may not remain economically effective demand. Federally sponsored housing starts fell sharply between November and February because the VA ran out of money for direct loans and the FHA had for some months been looking with disfavor on granting assistance to anyone but "owner-occupants," that is, for houses already built and sold.

The 1959 federal housing program is running on its 1958 momentum and is likely to remain dependent on this until — or unless — a housing bill is enacted. But Congress is not likely to send the current housing bill to the President until the end of April or early May. Even if the President does not veto it, as no doubt he would prefer to do, this legislation is not likely to help the housing industry either as much or as soon as most people are counting on it to do. The reason is that this year's question about housing must be answered as a money question — specifically, as a money question about the trend-making government sector on the long-term bond market. Its influence on the mortgage market is decisive.

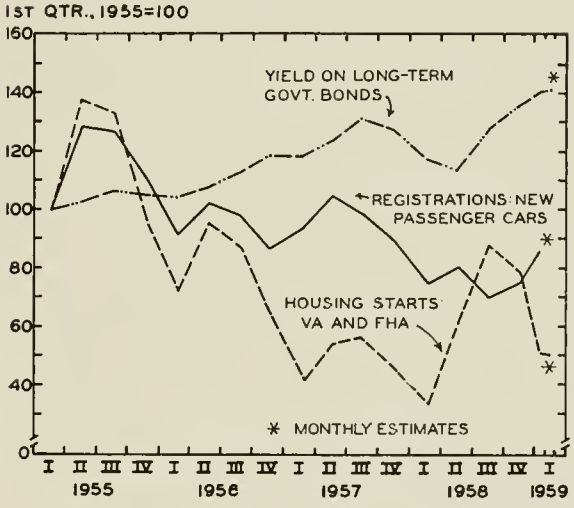
The relationship between housing and the bond market is a pocketbook one. Effective interest rates on government-insured mortgages tend to gravitate to a level some two percentage points above the yield on long-term government bonds. Despite the bond market's recent tendency to stabilize, long-term governments are still yielding in the neighborhood of 4 percent. Effective mortgage rates of close to 6 percent go with long-term government bond yields of 4 percent.

But it is not interest rates which exert the decisive influence on the volatile mass housing industry. When the interest rate and the discount from the face amount of the mortgage go up, amortization terms tend to be shortened, and monthly "rents" on newly purchased houses rise correspondingly. No sustained or trustworthy resumption of the 1958 housing boom can be expected until effective mortgage rates on government-sponsored houses are closer to 5 than to 6 percent, until mortgage terms are closer to 30-35 years than to 20 years, and above all, until FNMA mortgages are selling at par on the basis of 5-5¼ percent yields. These are the conditions required to keep monthly "rents" on low-priced housing closer to $80 than to $120. Legislative authority to raise the interest rates VA is permitted to pay won't do the trick. A long-term government bond market yielding closer to 3 than to 4 percent would. Nothing else will.

When recovery is dependent upon housing in the absence of capital goods demand, housing (and, therefore, recovery) is less vulnerable than usual to the combination of rising interest rates and shortening amortization terms. But such a recovery can quickly become vulnerable when unfavorable mortgage terms are accompanied by (a) the presence of high levels of unemployment, (b) the absence of overtime, and (c) the prevalence of partial unemployment. This could happen as soon as any rise in commercial demand for money (e.g., from inventory speculation) makes money conditions tighter.

After Congress reconvened in January of 1958, it took the combination of emergency housing legislation and easy money conditions until the spring of 1958 to make itself felt in actual housing statistics. Now, even if legislation is approved, housing can be expected to remain

CHART 2. AUTOS, HOUSES, AND BOND YIELDS



Source: Janeway Publishing and Research Corporation.

at lower levels only if recovery falters enough to turn money conditions easy once again.

Autos, Houses, and Credit

If, contrary to popular expectations, capital investment has not recover on schedule, "slowly, but steadily," and the housing boom is not sustained this spring, the burden of leading the 1959 recovery will fall on Detroit. But in recent years the automotive industry has tended to follow the over all business trend instead of leading it. Since the Korean conflict, the economy has never been in the position of depending almost entirely upon the auto industry to keep recovery going singlehandedly. We may yet have to try in 1959.

As Chart 2 suggests, auto sales and housing starts tend to fluctuate together in a sensitive way. Auto sales usually rise seasonally in the first quarter of the year following the introduction of a new model. But this year, no one could get cars in the early autumn, when auto models are usually brought out. Thus, when automobiles were available later, everyone wanted to buy them. Hence, this year's early rise in auto sales. Thanks to the disruptive effects of 1958's auto labor troubles, car sales began to rise seasonally earlier than is usually the case, but after the housing boom had already peaked out. In the recent past, the first quarter of any given year has brought a significant seasonal increase in housing starts. So far, 1959 has brought a seasonal increase, to be sure, but not of the magnitude expected at this time of year amidst a housing boom. The question at the moment is, therefore, whether housing starts will soon begin to rise into line with auto sales, or whether auto sales will soon begin to come under the same cloud as housing. Money conditions seem to hold the key to the answer.

If money conditions were to ease enough, soon enough, to accommodate the spring selling season for both houses and automobiles requiring generous credit accommodation, 1959 could well turn out to be a good year for business, after all — despite the continued weakness in capital investment. But, as matters stand now, any early easing of money conditions seems a highly unlikely prospect. The reason, paradoxical though it may seem, is the present "inflationary" increase in the federal government's demand for money.

The Administration is opposed to government competition with business in the industrial and public utility fields. But the government is competing with business in the money markets — by pushing up interest rates at a time when only government demand, not commercial demand, for money is on the rise. As matters stand now, higher demand for money on the part of the government is working out as still another "drag" on the economy.

The last time money conditions were tightened in the face of a simultaneous disappointment in both housing and capital investment was in 1957. The results are all too painful to recall. The economy in 1959, however, has a chance to build up to a new upturn, instead of being condemned to slacken off after a previous one, as was the case in 1957. This suggests that the 1958-59 premature tightening of money conditions will not be enough to produce a major, across-the-boards business recession — if only because of the political pressures any new downtrend would quickly whip up. But it will probably be enough to prevent the 1958 recovery from expanding into a major across-the-boards business upturn until 1960-61. And then, as happened in 1958, the likelihood is that a major resurgence of housing activity will lead the next long-term recovery.

The "Threatening" Steel Strike

(Continued from page 2)

The union will have to face, of course, the problem of which of its members lose and which gain. If the group that would be privileged by continuing employment wished to act selfishly and were in a position to force action, it might move to prevent the strike or end it quickly. Neither the desire nor the necessary control on the part of any such group is in evidence.

Prolonging "Inflation"

Thus the attitudes of workers and management are set in patterns similar to those that have prevailed during the last few years: The union must have a raise, and the companies are insistent that their margins cannot be reduced. Both could win by a strike long enough to liquidate the excess inventories. Such a strike might be prevented by government intervention; but the mere "jawbone" type of intervention is not likely to succeed, and anything more drastic is improbable.

What this adds up to is the fact that "inflation" in the steel industry is being prolonged. The "demand-pull" aspects of inflation are being provided by the inventory boomlet; buyers are willing to pay the price not only of purchasing but of carrying excess supplies of steel. The "cost-push" aspects are being provided by management and labor through their demands for high earnings; to buyers the part of the price going into profits is just as much cost as the part going into wages. Both demands and costs in the aggregate are gauged by the same measure, namely, the producers' income. Cost is income and income is cost, since every expenditure is also a receipt.

The issue is confused in mutual name-calling by management and labor. Although differences are real and rule out harmony, behind the smoke and clamor there is a substantial identity of interests. Both have some awareness of the ability conferred upon them by the special characteristics of the industry to improve their status relative to the community at large. Since neither desires to hurt those whose incomes are fixed, each is at pains to place the onus for "inflation" on the other.

In attempting to shift the blame for price increases, each accuses the other of monopolistic practices. Management wants the "monopoly power" of the union curbed. The union wants the ability of the companies to set high "administered prices" restricted. A brief review of the recent past seems to suggest that both have contributed to the upward spiral. Wage rates have moved up faster than productivity. Prices have moved up faster than wage rates adjusted for productivity. The experience at the recession low of 1958 indicates that the break-even point for the industry has been lowered substantially. It will be a surprise if these "trends" are now reversed.

This does not mean that the price increase resulting from a strike in the summer of 1959 would be large. The industry knows how much steel is currently going into stocks. It knows that the underlying state of demand relative to the total capacity available does not justify a large increase. It fears the growth of foreign competition, which will be intensified by the opening of the St. Lawrence Seaway. One of its arguments at the bargaining table will be, "Let's not export jobs!" Barring new international disturbances, the market will likely revert to a highly competitive state after the inventory boomlet subsides. This prospect is the real protection for steel consumers. It seems inadequate, however, to prevent at least a moderate price increase.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

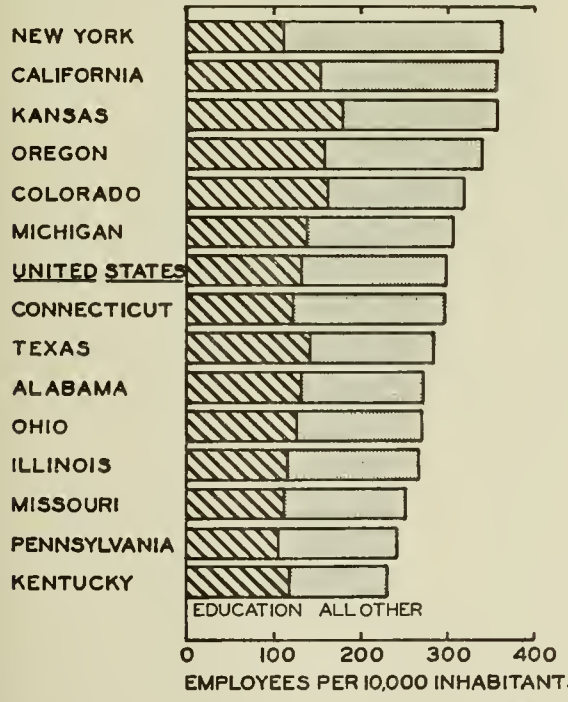
State and Local Government Employment

Data released by the Bureau of the Census show that there were approximately 8.3 million civilian public employees in October, 1958, or about 250,000 more than in April, 1957. The rise in public employment is accounted for entirely by state and local governments, which employed 5.9 million persons in October, 1958, as compared with 5.6 million in 1957. Employment in the federal government declined 35,000 during the same eighteen-month period.

State and local governments employed an average of 298 persons per 10,000 inhabitants in October, 1958. This included 131 persons who were employed in elementary, secondary, and higher education. The major portion of the remaining 167 persons were employed in departments of health and hospitals, highways, and police.

The chart indicates that there is considerable variation in the number employed per 10,000 population and in the type of employment. Kentucky employs only 231 per 10,000 inhabitants, whereas in New York there are 363 state and local employees per 10,000 inhabitants. Illinois had 268 employees per 10,000 inhabitants, or about 10 percent less than the national average. Employing in education only 116 persons per 10,000 inhabitants, Illinois was 12 percent below the national average.

EMPLOYMENT OF SELECTED STATE AND LOCAL GOVERNMENTS, OCTOBER, 1958



Source: Bureau of the Census, *State Distribution of Public Employment in 1958*, p. 16.

Quicker Measure of Personal Income

On March 28, 1959, *Business Week* began publishing monthly estimates of personal income for each of the 49 states, the District of Columbia, and Hawaii. This measure of personal income was developed by the McGraw-Hill Economics Department. It is said to check closely with the United States Department of Commerce figures. These data will appear in the last issue of *Business Week* each month and will lag two months behind the current month. Until now, state-by-state personal income figures have been published only once a year — in August for the preceding calendar year — by the United States Commerce Department.

The new series takes the place of *Business Week's* Regional Income Index and makes figures available by states rather than by Federal Reserve Districts. Personal income includes farm income, professional income, dividends, interest, rental income, and wages and salaries.

Spending Patterns of Older Persons

In the March, 1959, issue of *Management Record*, data obtained from various consumer surveys that relate to the spending patterns of older persons are brought together. The growth in numbers and income has made the older population an increasingly larger consumer market. In 1956 families headed by persons 65 and over spent on the average about $2,400, whereas younger families spent approximately $4,400. When compared on a per capita basis, however, the difference is much less — $1,100 for the older family as against $1,200 for the younger.

After making adjustments for family size, aggregate expenditures of both older and younger families in the $2,000 to $4,000 income range are very nearly the same, while the older families in the $5,000 to $6,000 income group spend 11 percent less and those in the $7,500 to $10,000 class 15 percent less than the younger families in these income classes. It was found that, in general, for every 1 percent increase in income, older people increased their expenditures by 0.5 percent and younger families increase theirs 0.6 percent. Food is the most important item for both family groups, but as income rises older people spend less than do younger people in the same income class. Housing and medical care expenditures run higher for older families, while clothing expenditures are substantially less than for younger families. Older people spend more for transportation when their incomes are greater than $4,000 than do younger people with comparable incomes.

Office Aids

The Columbia Ribbon and Carbon Manufacturing Company, Glen Cove, New York, has developed a new carbon paper called Plastisol. It will make legible copies after being used up to 60 times. Instead of a backing of carbon, Plastisol has a thin layer of plastic resin that serves as an ink reservoir. Under pressure the ink is squeezed out of the plastic onto the paper, making a permanent and relatively smudge-resistant image. The ink left in the plastic carbon paper then disperses into the squeezed areas. Plastisol sells for $4.75 per 100 sheets of standard size and $5.00 per 100 sheets in legal size. It is made in only one grade.

A new rubber cement in dry bar form called Dry-stik is produced by Dry-stik Company, 4356 North Kedvale Avenue, Chicago, Illinois. It is applied by simply rubbing it on the paper to be cemented. In the office, it can take the place of tacks, staples, and clips. There is no drying time needed, and it holds permanently. Dry-stik costs 49 cents and is available at stationery, art supply, and sundry counters.

LOCAL ILLINOIS DEVELOPMENTS

All major indexes of Illinois business activity, with the exception of life insurance sales, turned down in February. The largest declines were in construction contracts awarded and bank debits, which dropped 22 percent and 13 percent respectively.

Year ago comparisons showed increases of 7 percent in petroleum production and 4 percent in both electric power and life insurance sales. Construction contracts awarded dropped 13 percent below the February, 1957, level.

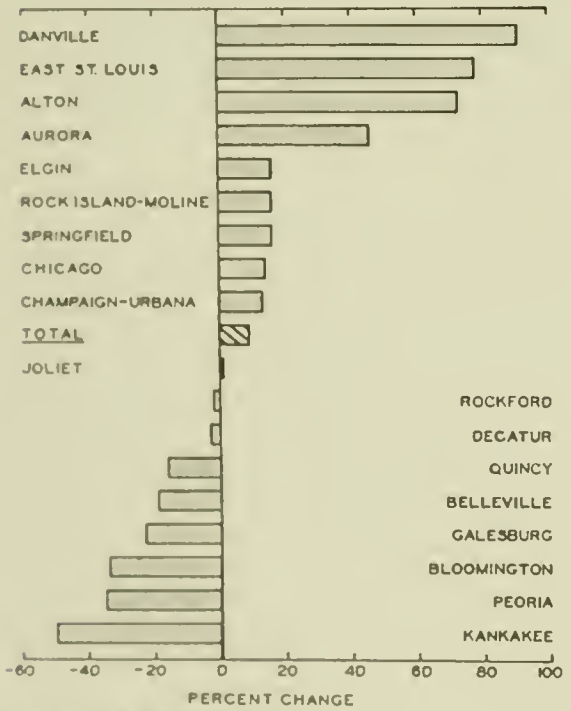
Livestock Slaughtering

Illinois commercial livestock slaughtering dropped more than the national average in 1958, with the greatest percentage declines in calves, sheep, and lambs. Illinois ranked fourth in the nation behind Iowa, California, and Nebraska in the slaughtering of cattle and second to Iowa in the slaughtering of hogs. Approximately 1.8 million cattle were slaughtered in the State during 1958, a decline of 11 percent from the previous year's level, whereas nationally the decline was only 8 percent. A total of 5.6 million hogs were slaughtered in 1958, compared with about 6.3 million in 1957. This amounted to an 11 percent decline in the number of hogs slaughtered, while the national total dropped only 2 percent.

Building Continues to Gain

The pace of Illinois building picked up during 1958, increasing 9 percent from 1957 as compared with a 1 percent rise from 1956 to 1957. Building permit valuation amounted to approximately $483 million in 1958, whereas the 1957 total was $441 million. More than half of the selected cities recorded gains during the year, as is shown in the accompanying chart. The most extreme changes occurred in Danville, which had an increase of 91 percent, and in Kankakee, which reported a decline of 50 percent.

CHANGES IN BUILDING PERMIT VALUATIONS, 1957 TO 1958



Source: U. S. Department of Labor and local sources.

Chicago is the only one of the eighteen selected cities which has experienced consecutive yearly increases since 1955. These rises totaled 38 percent. The main contributing factor to Chicago's increase in 1958 was its new steel mill, which accounted for about one-third of Chicago's $367 million building permit valuation. Decatur is the only city whose building permit valuation has declined each year since 1955. It has dropped from $17 million in 1955 to slightly less than $10 million in 1958, a decline of about 40 percent.

Illinois Bell Expansion

According to the 1958 *Annual Report* of Illinois Bell Telephone Company, it spent nearly $140 million on new construction in 1958, a sum exceeded only in 1957. The new construction included 2,600 additions and replacements, which involved nearly all of the 476 central offices of the company. Over 1.3 million miles of wire went into the system.

Illinois Bell is one of 262 telephone companies operating in the State, but it serves about two-thirds of the State's population. In 1958 the company made 157,000 telephone additions. This brought the total number of company telephones installed to more than 3.7 million, compared with 2.6 million in 1950 and 1.5 million in 1940. Residential phones, which account for about 70 percent of all phones installed, increased 5.6 percent, while business phones increased only 1.9 percent. Since 1940 there has been an increase of about 1.6 million residential phones; 80.8 percent of the households in the company's territory now have telephones.

By the end of 1958, nationwide direct distance dialing was available to more than 216,000 customers of Illinois Bell, an increase of 54,000 from 1957. This meant that these customers could dial up to 46 million phones in the United States, 11 million more than in the previous year.

Illinois Water Needs

The Illinois State Chamber of Commerce in its recent publication entitled *Will There Be Enough Water When You Need It?* reported on the problems and needs in meeting the growing water demands of the households and businesses of Illinois. A survey of 26 Illinois communities with over 25,000 population revealed that four had inadequate sources of water supply and ten needed greater provision for treatment of their water sources. Eight of the cities were deficient in pumping capacity, three needed additional ground storage facilities, and nine lacked sufficient elevated storage. A high proportion had distribution facilities that were too small to deliver the quantity demanded during times of stress or peak demand.

In order to meet the needs for an increased and more dependable water supply, Galesburg has completed a 30.6 mile pipeline to water collectors installed adjacent to the Mississippi River. Because of water shortages suffered during the drought of 1952-55, Effingham has built a 750-acre lake and has undertaken a $500,000 water works renovation and expansion program. The Moline Water Department has secured approval of a bond issue for $1.2 million for the purpose of increasing its plant capacity and installing four large feeder mains.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1959

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$18,813[a]	1,263,907[a]	$529,680[a]		$15,206[a]	$15,177[a]
Percentage change from Jan., 1959	+19.3	−0.2	−24.1	−7	−12.7	−14.3
Percentage change from Feb., 1958	−22.0	+10.3	−1.3	+7	+7.5	+12.8
NORTHERN ILLINOIS						
Chicago	$14,222	943,819	$396,818		$13,929	$13,038
Percentage change from Jan., 1959	+34.6	+0.8	−21.6	−7	−12.7	−12.9
Percentage change from Feb., 1958	−22.8	+9.4	−2.1	+7	+7.3	+12.0
Aurora	$ 570	n.a.	$ 7,927		$ 63	$ 156
Percentage change from Jan., 1959	+3.4		−30.1	−7	−14.0	−10.2
Percentage change from Feb., 1958	+167.6		+4.9	+27	+13.8	+8.0
Elgin	$ 143	n.a.	$ 5,222		$ 42	$ 106
Percentage change from Jan., 1959	−68.2		−37.5	n.a.	−14.0	−12.1
Percentage change from Feb., 1958	−21.9		−3.2		+8.6	+16.8
Joliet	$ 165	n.a.	$ 9,359		$ 74	$ 107
Percentage change from Jan., 1959	−35.0		−31.8	−7	−21.7	−31.1
Percentage change from Feb., 1958	−78.8		−1.7	+13	+8.6	+9.4
Kankakee	$ 51	n.a.	$ 4,440		n.a.	$ 56
Percentage change from Jan., 1959	−80.5		−35.0	n.a.		−22.2
Percentage change from Feb., 1958	−63.6		+3.9			+8.7
Rock Island-Moline	$ 750	28,752	$10,401		$ 96[b]	$ 178
Percentage change from Jan., 1959	+42.9	+6.6	−22.3	n.a.	−13.4	−13.4
Percentage change from Feb., 1958	−11.6	+7.3	+1.0		+7.4	+27.4
Rockford	$ 149	50,184[c]	$16,472		$ 166	$ 248
Percentage change from Jan., 1959	−74.5	−4.0	−31.2	+2	−13.4	−22.0
Percentage change from Feb., 1958	−65.6	+7.5	+0.3	+4	+8.0	+24.0
CENTRAL ILLINOIS						
Bloomington	$ 140	9,289	$ 4,831		$ 64	$ 100
Percentage change from Jan., 1959	+94.4	−3.5	−32.6	n.a.	−8.8	−4.6
Percentage change from Feb., 1958	+351.6	+11.1	+1.7		+15.4	+24.8
Champaign-Urbana	$ 102	14,239	$ 6,985		$ 72	$ 111
Percentage change from Jan., 1959	−61.2	−2.3	−31.9	n.a.	−18.7	−28.0
Percentage change from Feb., 1958	+50.0	+13.2	−1.2		+10.1	+24.4
Danville	$ 17	13,878	$ 5,337		$ 46	$ 70
Percentage change from Jan., 1959	−91.1	−3.4	−34.5	0	−16.1	−20.8
Percentage change from Feb., 1958	−79.0	+6.9	+3.0	+18	+7.4	+21.5
Decatur	$1,362	34,975	$ 9,982		$ 107	$ 121
Percentage change from Jan., 1959	+316.5	−3.8	−32.3	+5[c]	−11.0	−32.4
Percentage change from Feb., 1958	+146.3	−1.5	−1.8	+37[c]	+4.9	+19.9
Galesburg	$ 14	9,930	$ 4,207		n.a.	$ 47
Percentage change from Jan., 1959	+180.0	−6.1	−29.1	n.a.		−24.9
Percentage change from Feb., 1958	−95.2	+6.1	+6.2			+35.6
Peoria	$ 411	58,962[c]	$15,438		$ 212	$ 285
Percentage change from Jan., 1959	+4.3	−3.1	−29.2	+9[c]	−8.0	−22.5
Percentage change from Feb., 1958	−10.7	+22.2	+7.8	+24[c]	+15.4	+8.6
Quincy	$ 121	11,937	$ 4,327		$ 44	$ 80
Percentage change from Jan., 1959	−52.9	+0.4	−34.8	n.a.	−6.5	−22.2
Percentage change from Feb., 1958	−88.1	+10.0	−0.2		+17.1	+17.6
Springfield	$ 324	36,380[c]	$11,835		$ 119	$ 307
Percentage change from Jan., 1959	+2.2	−10.7	−32.6	−2[c]	−12.7	−14.8
Percentage change from Feb., 1958	−27.7	+2.1	−5.0	+12[c]	+8.5	+12.7
SOUTHERN ILLINOIS						
East St. Louis	$ 72	14,962	$ 7,575		$ 133	$ 79
Percentage change from Jan., 1959	+176.9	+5.6	−25.9	n.a.	−11.5	−40.4
Percentage change from Feb., 1958	−14.3	+15.1	+2.6		+7.1	+35.4
Alton	$ 92	26,352	$ 4,424		$ 39	$ 39
Percentage change from Jan., 1959	−72.9	+0.3	−30.7	n.a.	−8.5	−34.9
Percentage change from Feb., 1958	+1,214.3	+104.2	+5.1		+9.8	+24.6
Belleville	$ 108	10,248	$ 4,101		n.a.	$ 49
Percentage change from Jan., 1959	−71.7	−9.1	−28.6	n.a.		−34.0
Percentage change from Feb., 1958	+163.4	−1.4	−1.7			+28.9

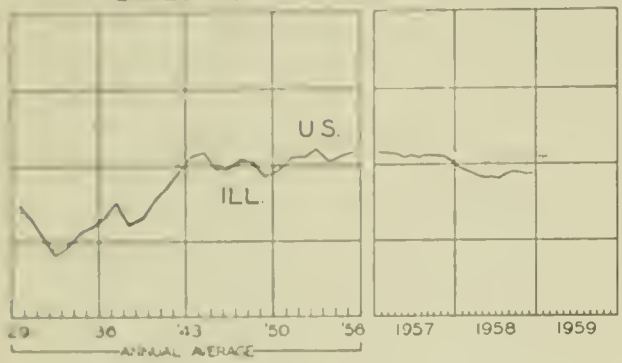
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for January, 1959. Comparisons relate to December, 1958, and January, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending February 6, 1959, and February 7, 1958.

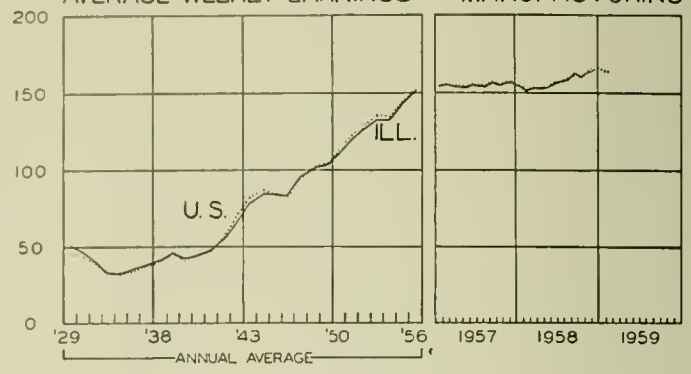
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

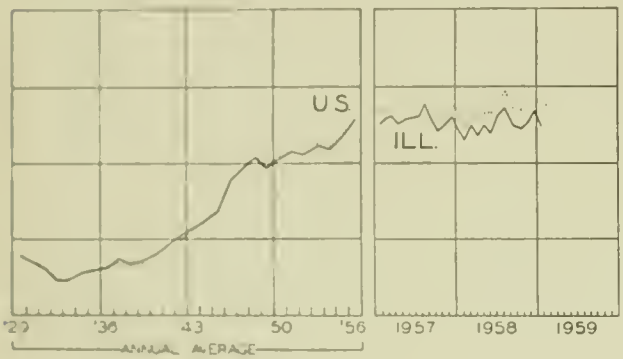
EMPLOYMENT MANUFACTURING



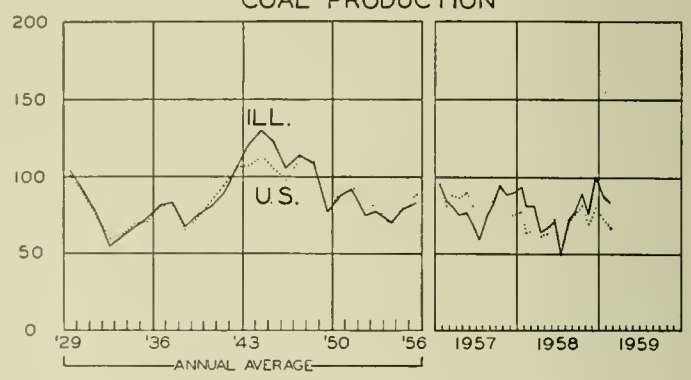
AVERAGE WEEKLY EARNINGS — MANUFACTURING



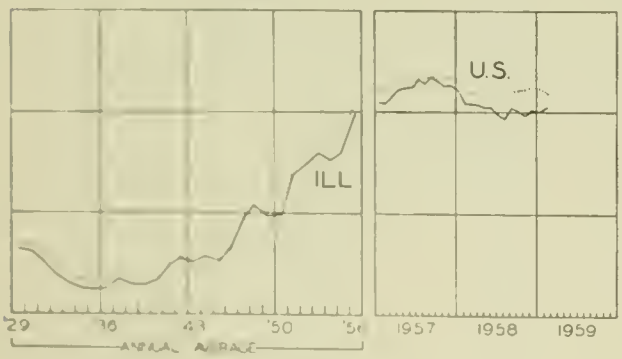
DEPARTMENT STORE SALES



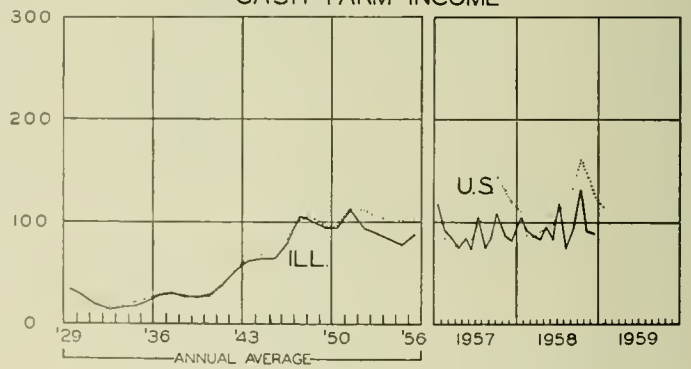
COAL PRODUCTION



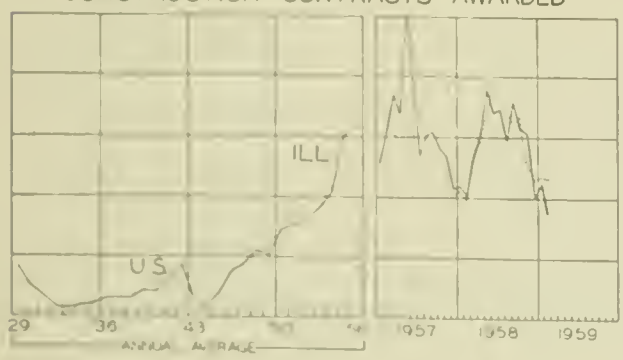
BUSINESS LOANS



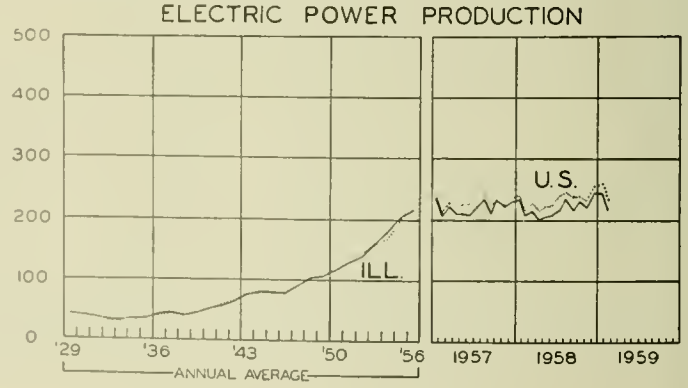
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XVI MAY, 1959 NUMBER 5

HIGHLIGHTS OF BUSINESS IN APRIL

The economy continued its recovery in April. The index of industrial production gained another 2 points, raising it to a new high of 149 (1947-49 = 100). Steel production averaged better than 2.6 million tons a week and auto output amounted to 579,000, slightly more than in March and 7 percent above April, 1957. Production of paper rose and paperboard continued high. Freight carloadings enjoyed a marked increase, with the miscellaneous category, which includes raw industrial materials and general manufactures, rising above the corresponding 1957 month. Most other weekly indicators maintained the preceding month's level or made some gain.

A preliminary estimate puts department store sales in April at 139 percent of the 1947-49 average, after seasonal adjustment. This is the same level as corrected figures indicate for March. Employment rose 1.2 million to 65.0 million and unemployment was reduced 735,000 to 3.6 million, both changes about twice the normal seasonal movement.

Construction Up

Spending for new construction put in place rose seasonally in April to $4.2 billion, up $400 million from March and a new high for the month. After seasonal adjustment, the rate was about 1 percent lower than in the preceding three months. Thus far in 1959, outlays have been at an adjusted annual rate of $54.3 billion, compared with actual expenditures of $49.0 billion in 1958.

With residential building running nearly a third higher than in the early months of 1958, private construction amounted to $2.9 billion and in the January-April period reached a record $10.7 billion. Some types of private nonresidential construction also expanded, but office building was off 9 percent in the first four months from the corresponding period in 1958, and industrial building outlays were at the lowest January-April level since 1951.

Public spending for construction, at $1.3 billion, was up 18 percent from April, 1958. The biggest gain was in highway outlays, but most other types of public projects were also higher.

Sales, Inventories Rise

A continuing buildup of steel stocks as a hedge against the possibility of a summer strike in the steel industry was largely responsible for a $400 million increase in the book value of manufacturing and trade inventories during March. By the end of the month the seasonally adjusted total reached $86.3 billion. Metal producers and fabricators accounted for most of the gain that raised manufacturers' stocks to $50.3 billion. Wholesalers held their inventories steady at $11.9 billion and retailers at $24.1 billion, in the latter case a rise in auto dealers' stocks being offset by a decline in stocks of nondurables.

Total manufacturing and trade sales went up $1.1 billion to $59.1 billion in March on an adjusted basis, part of this increase also reflecting large steel purchases. Manufacturers accounted for $600 million of the sales gain, with more than two-thirds going to durable goods producers. Wholesalers had a $200 million adjusted increase over February, all of it in durables, and sales of retailers advanced $300 million.

New orders received by manufacturers rose from $29.7 billion in February to $30.0 billion in March on an adjusted basis. Their backlog of unfilled orders increased $1.0 billion to $50.1 billion.

Consumer Debt Expands

During March consumers increased their instalment obligations $318 million on a seasonally adjusted basis, bringing the total outstanding to $33.9 billion. Although nearly half of the advance was in automobile paper, it was well below the additions to this type of debt reported in recent months. Other consumer goods paper and personal loans expanded about $70 million each and repair and modernization loans went up $25 million. These increases brought the addition to total instalment debt in the first quarter to $1.0 billion, the largest quarterly rise since late 1955.

Noninstalment debt of consumers advanced $55 million on an adjusted basis, raising the total of this type to $10.3 billion. All three major categories — single-payment loans, charge accounts, and service credit — shared in the expansion. Total consumer credit rose $373 million to $44.2 billion.

Gold Outflow Picks Up

In the last two weeks of April gold exports by the United States amounted to $179 million, more than in the whole of the first quarter of 1959. The increased volume was quickly compared with the heavy outflows of 1958, when net exports of gold totaled $2.3 billion. Sluggish foreign markets for American commodity exports, combined with continuing large imports, a big volume of investment abroad, and the government aid programs, have made it possible for foreigners to increase their gold purchases.

THE ILLINOIS TAX PROBLEM · · · · By John F. Due · · · · Page 6

ILLINOIS BUSINESS REVIEW

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Technological Unemployment

The lag in employment (see chart, p. 5) is generally attributed to reductions in the working force effected by installation of laborsaving machinery. Questions that were key issues of the late 1930's are again being asked: Will mechanization and automation permanently displace workers? Will unemployment rise? Will it become chronic in the years ahead?

These questions have become a primary source of concern for labor, and especially for the unemployed. To deal with the problem, the unions have begun a drive for shorter working hours at no decrease in pay. Their goal is to spread the work and keep income rising. Management contends that this is the way only to inflation, from which the workers can gain nothing.

Growth Aspects

The economic philosopher — who need not trouble himself over a "reasonable" amount of unemployment during the next few years — can point out that growth has always corrected these difficulties in the course of time. The efficiency of the automatic machines is needed to increase output and raise living standards. Manufacturing goods efficiently in large volume tends to expand the over-all market and create new job opportunities. This has been the constantly repeated history of industrial development. No doubt we should look forward a decade or so hence to new highs of productivity and full-employment prosperity.

There is still a problem: If this unprecedented growth is realized, it may not be entirely stable. To achieve stable progress, the market must grow with the production potential. It must grow enough to accommodate both the growth in the labor force and the labor displacement resulting from installation of new equipment. If the market does not grow sufficiently, the output demanded will be produced with fewer workers and some will be left unemployed. This will slow the growth of the market still further, so that the rapid advance will tend to deteriorate into instability.

Especially if the new machines are much more efficient than the old, the market must grow very rapidly to keep the labor force employed. When a dollar unit of investment produces a single unit of capacity, it tends to produce also the required dollar unit of market. But some dollar units of investment create more than unit gains in capacity. In the steel industry, for example, the introduction of oxygen equipment has been producing much larger increases in capacity than equivalent dollar units of investment in the older-type facilities. Then, unless demand can be kept expanding by some other stimulus to activity, the market tends to fall short of the gains in industrial capacity, leading to excess capacity, that is, to a saturation of the market for investment goods.

Since new machinery is generally faster and more accurate than the older types, the danger of this kind of development is present in any high prosperity period. A spurt of new capacity installations tends to have two consequences: (1) It leaves employment, and therefore the consumer market generally, out of balance with industrial capacity and (2) the lag in employment and consumption reacts on investment, possibly turning the reduced rate of growth into an actual decline. Once a breakaway from the trend occurs, the growth model becomes a cyclical model.

Relation of Employment to Investment

Thus, whenever employment lags in a period of expansion into new high ground, there is a danger that unemployment will increase inordinately on the next setback. The loss of jobs is not necessarily permanent, and no one need be excessively concerned about secular stagnation. But anyone who cannot afford to wait through a period of recession — and not all such periods need be as short as those recently experienced — will properly be concerned about technological unemployment.

Considered as part of the cyclical mechanism, the displacement of men by machines helps to make unemployment acute in the trough of depression and to keep it high until a new drive for expansion gets under way. In the boom, investment is adequate to generate production demands high enough to call for full employment. The production demand is not only direct, but also indirect; it includes the derived demand for consumer goods. As a counterpart of the income multiplier, in other words, there is an employment multiplier, which generates jobs in other than the capital-producing industries.

When investment outlays are unduly concentrated on laborsaving equipment, offsets that interfere with the operation of the employment multiplier are generated. Two cases illustrate the difficulty: First, assume a given rate of homebuilding; workers are needed not only on the site and in the materials industry but also to supply the consumption needs of the construction workers. In contrast, assume an equal rate of investment in laborsaving machinery; the immediate effect is much the same, but as the new equipment is brought into use, the labor required for a given volume of output is reduced. Hence, the employment multiplier is made inoperative, and without other job opportunities, growth dwindles into recession.

After a recession gets under way, technological unemployment may for a time be intensified. The effects of the new technology operate on the labor market with some lag in any case. But when production actually declines, its adverse effects are aggravated because the least efficient units are taken out of production first, and it is exactly those units which up to that point employed the greater number of workers. To the extent that investment during the depression is concentrated on cost reduction, it prolongs depression and hampers recovery.

(Continued on page 8)

ILLINOIS — NATIONAL SOYBEAN CAPITAL

Although soybeans were brought to the United States in 1804, the crop did not begin to develop into a major industry here until after World War I. Since then, soybean production has expanded so rapidly that it has become the nation's fourth largest crop.

The soybean is a native of China, where it has been a basic food for more than 5,000 years. Its fuzzy pods contain two to four seeds which vary in color from black to yellow or creamy white. Because of the high protein content (about 35 percent), the soybean has substantial food value after extraction of the oil.

Regarded mainly as a curiosity here for more than a hundred years, the soybean was used as a forage crop and as green fertilizer, but after World War I, its potential value as a source of vegetable oil was explored. The rise in United States soybean production, especially in the late 1920's, was associated with the increase in processing plants which made it profitable for farmers to grow the crop. The first processing of soybeans on a large scale was performed in 1922 by the A. E. Staley Manufacturing Company at Decatur. A number of other large firms entered the field soon after. By 1937 there were 26 plants in operation, and this number swelled to 133 in 1947. Since 1947, the total number of plants has declined to 92, but the value of shipments has climbed about 70 percent to nearly $1.2 billion.

New World Leader

In only four decades, the United States has become the world leader in soybean production; the nation's 573 million bushels in 1958 represented more than 58 percent of world output. In addition, the United States dominated world exports with nearly 80 percent of the total (110 million bushels) during the same year. Because of this startling growth, the industry today provides more than half of the vegetable oil used domestically and nearly three-fifths of the meal proteins fed to livestock and poultry.

Soybean production and processing has become predominantly a Midwestern industry. About three-fourths of the national supply in 1958 was from six states — Illinois, Indiana, Iowa, Missouri, Minnesota, and Ohio. Illinois alone produced nearly 25 percent of the national crop. The same six states, with 72 of the industry's 92 soybean mills, were responsible for an estimated nine-tenths of the total value of processors' shipments.

Although the typical soybean mill is relatively large (averaging $1 million in value added by manufacture), the average plant employs only about 60 production workers. This characteristic is related to the high level of mechanization and automation employed to transport and process the beans.

Illinois — Pivotal Soybean State

Illinois is the soybean center of the United States, and possibly of the world. The industry plays a key role in the state's farm economy. For example, the crop was valued at $295 million in 1957, and the value of soy products shipped from plants here reached more than $360 million. Nearly 5 million acres were utilized in 1958 to produce 140 million bushels of soybeans (for beans). Another 20,000 acres produced beans for hay.

Champaign County, with more than 5.7 million bushels in 1957, was the top county in the State, followed by Iroquois and Vermilion. The total crop value in these three counties was only $32 million, a fact pointing to the widespread distribution of the crop within the State. However, the greatest concentration is found in the central and eastern sections.

Many of the industry's leading soybean processing firms are located in Illinois, with some operating more than one plant. Half of the 22 soybean mills in Illinois are situated in the heart of the state's soybean area. Decatur, with four processing plants, is the center. Among the state's large plants, in approximate order of daily tonnage, are A. E. Staley, Archer-Daniels-Midland, Cargill, Quincy, Central Soya, Spencer Kellogg, Allied Mills, Galesburg, and Ralston.

Processes and Products

Extraction of oil from the soybean is accomplished by means of four principal methods: (1) hydraulic press, (2) continuous screw press, (3) solvents, and (4) prepress-solvent extraction. The first two, usually called expeller processes, utilize a continuous pressure principle by which oil is squeezed from a prepared bean. Today, however, nearly 90 percent of soy oils are extracted by the more efficient and modern solvent process, compared with less than 50 percent only ten years ago. With the solvent operation, soy oil is leached from prepared bean flakes with a recirculating solvent, from which the oil is then separated. The prepress-solvent extraction combines the expeller and solvent methods. In all four processes, the residual mass is ground into meal for use in farm feeds, food products, and industrial purposes.

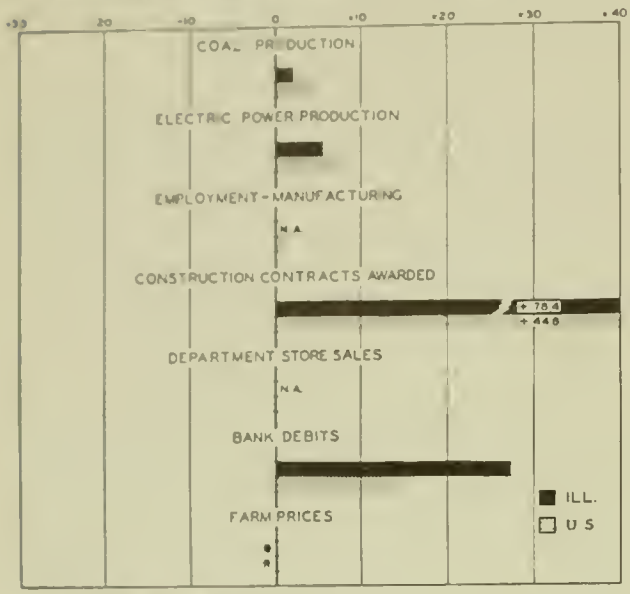
The products of the soybean have been steadily growing in number since the 1930's. Today there are more than a hundred uses, all derived from the two primary products — oil and meal. In 1957 about 96 percent (7 million tons) of all soybean meal was used as protein supplement for farm animals. This proportion has remained relatively constant during the past two decades, although the total manufacture of meal for feed has risen nearly sevenfold. Among the important by-products of oil meal are adhesives, sizings, and soy flour (a protein additive for basic edibles).

Soybean oil finds its most important outlet in the manufacture of food products; more than 89 percent of the 2.5 billion pounds utilized in 1958 went into various foods, such as vegetable shortening, margarine, salad oils, and cooking oils. Most of the remainder was used for industrial products, such as paint, soap, linoleum, printing inks, foundry core oils, glues, paper coatings, synthetic rubbers and plastics, insecticides, and lubricants.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1959, to March, 1959



• No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Mar. 1959 (1947-49 =100)	Percentage change from Feb. 1959	Percentage change from Mar. 1958
Electric power[1]	228.3	+ 5.5	+ 6.8
Coal production[2]	76.9	+ 2.0	+ 1.8
Employment—manufacturing[3]	100.6	+ 1.3	+ 2.0
Weekly earnings—manufacturing[3]	n.a.		
Dept. store sales in Chicago[4]	121.0[a]	+ 2.5	− 2.4
Consumer prices in Chicago[5]	127.2	+ 0.1	+ 0.3
Construction contracts awarded[6]	311.5	+78.4	+17.9
Bank debits[7]	221.7	+27.4	+16.9
Farm prices[8]	82.0	0.0	− 6.8
Life insurance sales (ordinary)[9]	325.7	+27.7	+12.0
Petroleum production[10]	129.1	+11.9	+ 7.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd., [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Mar. 1959	Percentage change from Feb. 1959	Percentage change from Mar. 1958
	Annual rate in billion $		
Personal income[1]	368.6[a]	+ 0.9	+ 5.7
Manufacturing[1]			
Sales	349.2[a]	+ 2.1	+16.9
Inventories	50.3[a, b]	+ 0.8	− 3.3
New construction activity[1]			
Private residential	18.4	+11.8	+30.0
Private nonresidential	14.0	+ 3.3	− 5.3
Total public	13.1	+12.2	+17.4
Foreign trade[1]			
Merchandise exports	15.4[c]	− 8.6	− 4.8
Merchandise imports	13.4[c]	− 3.1	+16.9
Excess of exports	1.9[c]	−34.2	−58.3
Consumer credit outstanding[2]			
Total credit	44.2[b]	+ 0.3	+ 3.9
Instalment credit	33.9[b]	+ 0.6	+ 2.9
Business loans[2]	31.2[b]	+ 3.0	+ 0.8
Cash farm income[3]	26.9[c]	−21.7	+ 4.6
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	147[a]	+ 1.4	+14.8
Durable manufactures	160[a]	+ 2.6	+18.5
Nondurable manufactures	139[a]	0.0	+12.1
Minerals	122[a]	− 0.8	+ 8.9
Manufacturing employment[4]			
Production workers	98	+ 1.0	+ 4.8
Factory worker earnings[4]			
Average hours worked	101	+ 0.3	+ 3.9
Average hourly earnings	166	+ 0.5	+ 4.7
Average weekly earnings	167	+ 0.7	+ 8.8
Construction contracts awarded[5]	337	+44.8	+22.7
Department store sales[2]	139[a]	− 0.7	+ 6.1
Consumer price index[4]	124	0.0	+ 0.3
Wholesale prices[4]			
All commodities	120	+ 0.1	− 0.1
Farm products	91	− 0.2	− 9.6
Foods	107	− 0.4	− 3.2
Other	128	+ 0.2	+ 1.9
Farm prices[3]			
Received by farmers	90	0.0	− 4.3
Paid by farmers	119	0.0	+ 1.7
Parity ratio	82[d]	0.0	− 5.7

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for February, 1959; comparisons relate to January, 1959, and February, 1958. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 April 25	1959 April 18	1959 April 11	1959 April 4	1959 March 28	1958 April 26
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,336	1,337	1,331	1,293	1,320	1,135
Electric power by utilities	mil. of kw-hr.	12,538	12,609	12,604	12,618	12,709	11,206
Motor vehicles (Wards)	number in thous.	160	163	159	160	147	75
Petroleum (daily avg.)	thous. bbl.	7,132	7,133	7,134	7,129	7,193	6,288
Steel	1947-49 = 100	154	154	153	153	153	74
Freight carloadings	thous. of cars	647	634	618	590	604	534
Department store sales	1947-49 = 100	142	132	130	117	141	136
Commodity prices, wholesale:							
All commodities	1947-49 = 100	119.9	119.9	119.7	119.5	119.3	119.3[a]
Other than farm products and foods	1947-49 = 100	128.1	128.1	128.2	127.9	127.8	125.5[a]
22 commodities	1947-49 = 100	87.5	86.8	87.1	87.0	86.8	84.1
Finance							
Business loans	mil. of dol.	31,229	31,275	31,009	31,172	31,170	30,174
Failures, industrial and commercial	number	300	304	337	284	297	329

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for April, 1958.

RECENT ECONOMIC CHANGES

Manufacturing Output and Hours

Manufacturing production rose in March to a record peacetime high of 150 percent (seasonally adjusted) of the 1947-49 average. The continuous rise since April, 1958, has resulted in a 22 point advance in the Federal Reserve Board's index of manufacturing production. March output was 2 points above the previous month.

The recovery in manufacturing output, however, has not brought a corresponding increase in employment (see chart). The number of production workers engaged in manufacturing fell from 13.2 million in January, 1957, to 11.2 million in May last year. Since then, in spite of the fact that production has surpassed pre-recession levels, employment of production workers has gained by only 900,000 and stood at 12.1 million in March. This represents an increase since the recession low of only 8 percent, compared with a 17 percent advance in output.

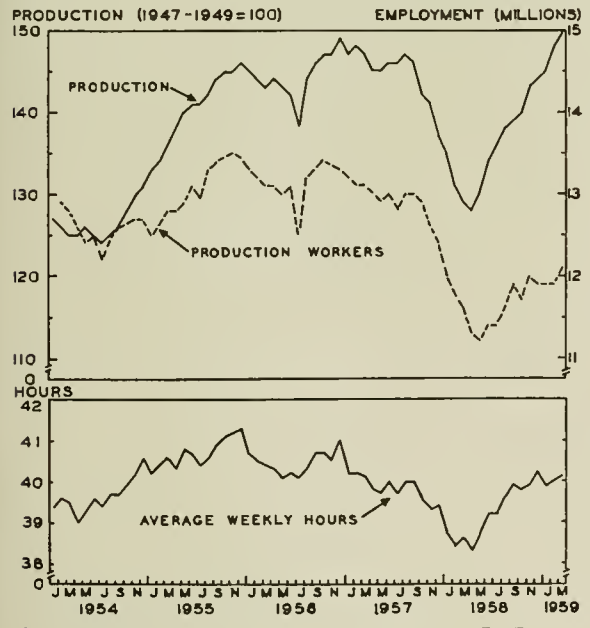
Average hours worked per week have returned to 1957 levels and amounted to 40.1 in March of this year.

Profits

Sales and earnings of United States manufacturing corporations, continuing the steady rise which began in the second quarter of last year, returned to 1957 levels in the final three months of 1958. In the fourth quarter, sales totaled $81.7 billion, compared with $76.0 billion in the preceding period and $79.8 billion in the last quarter of 1957. Profits after taxes in the October-December period moved up to $4.0 billion, a gain of $700 million over the third-quarter figure. As a result of these changes, the ratio of after-tax profits to sales rose to 4.9 percent, as against 4.4 percent in both the third quarter, 1958, and the last quarter, 1957.

For the year, sales totaled $304 billion, down $16 billion from 1957; profits were reduced from $28 billion to $23 billion. Thus, the margin of profit, though rising throughout the year, averaged 4.1 cents per sales dollar in 1958 compared with 4.8 cents in 1957.

MANUFACTURING PRODUCTION, EMPLOYMENT, AND HOURS



Sources: Federal Reserve Board and U. S. Department of Labor.

Gross National Product

The nation's output of goods and services moved up to a record seasonally adjusted annual rate of $465 billion in the first quarter of this year, according to preliminary estimates made by the President's Council of Economic Advisers. The first-period rate represented a $38 billion gain from the recession low of $427 billion in the first three months of last year and a $12 billion advance over the fourth-quarter, 1958, figure.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1959*	*4th Qtr. 1958*	*1st Qtr. 1958*
Gross national product	465.0	453.0	427.1
Personal consumption	300.0	295.9	286.2
Durable goods	40.0	38.9	36.3
Nondurable goods	145.3	143.3	139.8
Services	114.7	113.6	110.1
Domestic investment	68.5	61.6	50.9
New construction	40.0	38.6	36.3
Producers' durable equipment	24.5	23.0	22.9
Change in business inventories	4.0	.0	−8.2
Nonfarm inventories only	3.3	−.9	−9.3
Foreign investment	−.5	.4	1.7
Government purchases	97.0	95.2	88.3
INCOME AND SAVINGS			
National income	n.a.	373.5	351.7
Personal income	365.7	359.5	348.3
Disposable personal income	321.0	315.8	306.1
Personal saving	21.0	19.9	19.9

* Preliminary estimates by Council of Economic Advisers.

Most of the first-quarter advance resulted from a $4.1 billion gain in personal consumption expenditures, especially for nondurables, and a $6.9 billion increase in the rate of gross private domestic investment. The latter was greatly spurred by the first rise in stocks in more than a year. Nonfarm business inventories were accumulated at an annual rate of $3.3 billion in the first quarter, compared with a rate of liquidation of almost $1 billion in the last three months of 1958. The net swing from liquidation of $9.3 billion in the first quarter a year ago represented a third of the total advance over the year. Investment in construction and producers' equipment also advanced in the January-March quarter this year.

The rest of the increase in GNP was accounted for by a $1.8 billion rise in the rate of government purchases of goods and services, which was partially offset by a decline in foreign investment.

Employment

Government officials reported an improvement in the nation's employment situation during April with the number of jobless falling below the 4 million mark. The 735,000 decline in unemployment placed the number of workers without jobs about 1.5 million below April, 1958.

At the same time a more-than-seasonal pickup in employment took place as a result of substantial rehiring of manufacturing and other nonfarm workers.

Census data, in thousands of workers, are as follows:

	April 1959	*March 1959*	*April 1958*
Civilian labor force	68,639	68,189	68,027
Employment	65,012	63,828	62,907
Agricultural	5,848	5,203	5,558
Nonagricultural	59,163	58,625	57,349
Unemployment	3,627	4,362	5,120
Seasonally adjusted rate	5.3	5.8	7.5

THE ILLINOIS TAX PROBLEM

JOHN F. DUE, Professor of Economics

The State of Illinois is faced with the problem common to almost all states, namely, the inadequacy of revenues from existing taxes, at present rates, to meet demands for growing expenditures, particularly for school aid. Expenditures on most state functions are not increasing more rapidly than revenues, and were it not for the pressure for additional funds for higher education and mental institutions and for aid to local education the State would probably require no increases in tax levies. But the growing numbers of school age children create sharply rising educational expenditures, which the school districts, limited to the general property tax, are virtually unable to meet, at least with politically and economically tolerable property tax rates.

So far as the over-all tax picture is concerned, the Illinois situation is far less desperate than that of many states, particularly Michigan, Pennsylvania, California, and Massachusetts. On the one hand, the State has a relatively low per capita state expenditure, ranking thirtieth among the states; on the other hand, it has a high tax potential because of its relatively high per capita income and extensive industrial activity. But clearly some increases in taxes are currently necessary.

The Present Tax Structure

The yields of the major tax sources, expressed as percentages of total state tax revenue, are shown in the accompanying chart for Illinois and for the states as a whole, for 1958. The Illinois picture is distinguished by several features. One is the very heavy reliance on the sales and use tax, which yields 43 percent of the state's total tax revenue, compared with 23 percent for the states as a whole. Only two states exceed the Illinois figure (excluding the gross receipts business taxes employed by several states). A second major feature is the negligible importance of the state general corporation levy (a franchise tax based on capital stock), which yields less than 1 percent of state tax revenue, whereas the states as a whole gain 10 percent of their revenues from this source (primarily with the corporation income tax). A third feature is the absence of a personal income tax, which is used by 31 states and produces 11 percent of total state tax revenue.

A final difference, in terms of the state and local tax system as a whole, is the greater-than-typical importance of the general property tax, which yields 43 percent of the combined state and local revenue (1957), compared with a national average of 34 percent. The Illinois percentage was exceeded in only five states. The per capita property tax payment in Illinois was $93, compared with an over-all figure of $75, and was higher than that in any neighboring state (including Ohio and Michigan) except Wisconsin.

Potential Sources of Additional Revenue

There are four major possible sources of additional tax revenue (apart from the liquor and tobacco taxes, which could be made to yield limited additional sums):

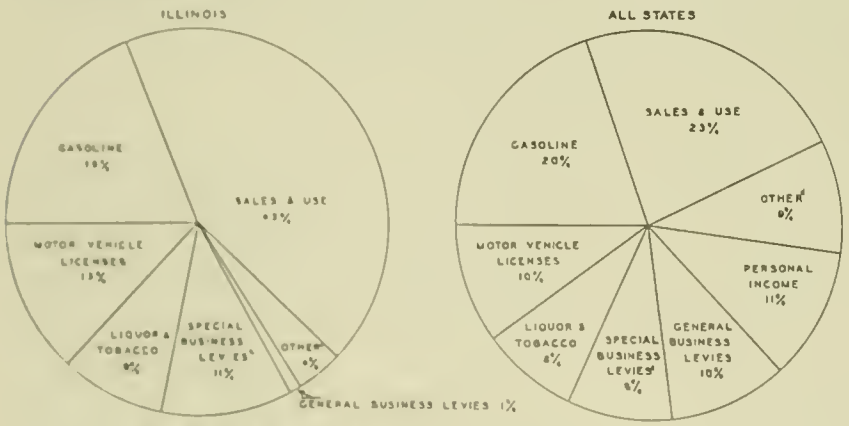
(1) *Extension of the scope of the sales tax.* The Illinois Retailers' Occupation and Use Taxes are unnecessarily restricted in scope, mainly as a result of court decisions, and thus a number of transactions normally covered by such levies escape. The major instances include sales of made-to-order articles and sales through contractors. Extension of the coverage of the tax to include these is highly desirable in terms of both revenue and equity. In addition the tax could be extended to certain consumer services, such as transient hotel and motel charges, which are taxed in an increasing number of states.

(2) *Increase in the rate of the sales tax.* One of the simplest methods of gaining additional revenue is that of raising the rate of the sales tax. It is this solution which was recommended by Governor Stratton in his 1959 budget message, with the proposal for an increase of ½ percent, the funds (estimated at $105 million) to be allocated for school aid. This change would bring the state rate to 3 percent, the figure now most widely used in other states, and the combined state-local rate in most municipalities to 3½ percent, a figure exceeded in only a very few states. The California combined state-local rate is 4 percent, but food is exempt from the tax.

This approach avoids any danger of revenue impairment which might occur if entirely new taxes were levied and then held to be unconstitutional, as well as the need for new tax administrative machinery. On the other hand, it would further increase the regressiveness of the state tax system, the tax burden on the lower income groups, and the discrimination against all persons whose circumstances compel them to spend relatively high percentages of their incomes on taxable goods.

So long as a sales tax has a relatively low rate, the regressiveness and the burden on the poor are not serious objections, in terms of usual standards, particularly in light of the great importance of the federal income tax in the over-all tax structure

STATE TAX REVENUE BY MAJOR TYPE OF TAX, FISCAL 1958



[a] Primarily insurance, public utility, and pari-mutuel levies.
[b] Including death, 3%.
[c] Including severance taxes.
[d] Including property, 4%, and death, 2%.

of the country. However, as the sales tax rate continues to rise, the equity objections, particularly the absolute burden on the lower income levels, become increasingly significant, and consumers are given added incentive to buy high-value items in neighboring states, such as Wisconsin and Indiana, which have no equivalent taxes. In practice the use tax cannot be enforced on many such purchases. An additional ½ percent, in itself, cannot be a very serious burden on anyone. But as additional funds are needed in the future, the temptation will be strong to take once again the easy way out and add additional ½ percents, until ultimately the burden becomes intolerable. Sooner or later the need for more basic reform and the development of additional tax sources must be faced.

(3) *Establishment of a corporation franchise tax based upon net income.* As noted above, Illinois receives a very small percentage of its tax revenue from its general corporate levy — less than any other industrial state. The present tax, based upon capital stock and surplus, is grossly inequitable and is tolerable only because the rate is so low. Additional revenue from this source necessitates the replacement of the present tax by a franchise levy based upon corporate net income, the form used by 33 states, and by far the most equitable type of general corporate tax. Capital stock bears no relation to any usual measure of tax capacity.

Such a franchise tax would be based upon net income, with allocation of interstate income by one of the typical formulas; the rate would be proportional, perhaps at a 4 percent level. The most common figures imposed in other states are 4 and 5 percent. No constitutional obstacles should be encountered. Under court interpretation, the legislature is much less restricted in taxation upon the basis of franchise than it is upon other bases; in addition, the uniformity of rate and the absence of exemptions would lessen the possibility of any difficulties.

There is no conceivable reason why Illinois should not obtain from corporations a contribution comparable to that obtained by other states for the privilege of carrying on business activity. No possible harm can come to Illinois business from such a tax, so long as it is not higher than the usual figure. At present, the State is essentially subsidizing business activity at the expense of other taxpayers, a policy which is highly inequitable as well as completely unnecessary for economic development of the State. It should be noted that about half of such a tax would not rest on the corporation, but would be absorbed through reduced federal tax payments, since state income taxes are deductible in determining federal income tax liability. At present Illinois is allowing the federal government to obtain a disproportionate share of the tax on Illinois corporations. Only six states, primarily agricultural, receive smaller percentages of total state revenue from the general corporate levy than Illinois.

With the establishment of a state franchise tax on corporation net income, the locally applied capital stock (corporate excess) tax should be abolished. This levy, under which the local property tax rate is applied to the so-called corporate excess of corporations, is poorly administered, is highly inequitable as among various corporations, and discriminates severely against domestic corporations, since those chartered in other states are not subject to tax. The present system provides a completely unwarranted bonus to communities in which are located the legal head offices of large companies, since they receive for tax purposes the entire corporate excess of those companies, under a rule little short of fantastic. As a consequence, companies often deliberately place their legal head offices in a small city, since by so doing they depress the local tax rate and lessen their own liability.

(4) *Use of a personal income tax.* The final major alternative is the establishment of a personal income tax, a levy which conforms more closely with generally accepted standards of equity than the sales tax. In light of the high and progressive federal income tax rates, there is no necessity that such a tax have progressive rates, but it is imperative that exemptions be provided, to avoid additional severe burden on the lower income groups. As a consequence, a constitutional amendment would probably be required, although some observers have suggested that if this levy were set up in the form of a privilege tax, comparable to the inheritance tax (which has been upheld by the courts despite its exemptions and progressive rates), it might meet constitutional requirements.

The over-all case for state personal income taxation would be much stronger if federal rates were not so high, but even with the present levels of the latter, a point is reached at which a moderate (perhaps 2 or 3 percent) state income tax is preferable to increases in the sales tax, in view of the more acceptable burden distribution. In any event any further strengthening of the constitutional barriers against the income tax is highly undesirable, in light of possible urgent needs for additional funds. The use of any form of gross income tax on individuals, with no exemptions, as sometimes proposed, offers no significant advantage over sales tax increases and would compound the burden on the lower income groups.

Unfortunately a major obstacle toward the use of any form of corporate or personal income tax in Illinois, apart from constitutional problems with the latter, is the general hostility, reaching almost mania proportions, on the part of numerous persons and organizations in the State against any levy of this type. The extremeness of the attitude is probably attained in no other state. This hostility is a serious impediment in the way of improvement of state corporation taxation, and even interferes with constitutional reform of property taxation, since opponents of proposed amendments will often drag in the red herring that the change might facilitate establishment of an income tax, even though there is no foundation whatsoever for the charge. Legitimate arguments can be raised against a state personal income tax with progressive rates, in light of current federal tax levels, but it is unfortunate that opposition to this tax should have developed into such a far-reaching and vitriolic bias against any type of tax related to income.

Further Reforms in Local Taxation

The local governments in Illinois rely primarily on two taxes, the general property tax and, for most municipalities, the ½ percent sales tax. As noted above, property tax burdens are heavier in Illinois than in most states, primarily because the State has assumed a less than typical proportion of local school costs. Thus it is difficult to finance additional expenditures for education from this source, and the present heavy drains of education on the tax result in inadequate expenditures, in terms of usual standards, for other local functions — as witnessed, for example, by the disgraceful condition of the streets in many Illinois communities.

The property tax, like the sales tax, is tolerable at reasonable rates, but as the burden continues to rise, the pressure placed on lower and middle income homeowners becomes tremendous, and intolerable for some groups, such as retired persons owning their homes but having

...e current income. In addition the tax is discriminatory against those types of business making relatively extensive use of real property, relative to gross sales. The only feasible solution to this growing property tax burden is the provision of additional state aid, particularly for education.

In view of the heavy property tax levies, it is important that further progress be made in administration in order to lessen inequities among property owners. The state program of equalization of assessments by county has without doubt led to an over-all improvement in the operation of the tax as applying to real property, even though the original goal of 100 percent valuation was unofficially abandoned in favor of a figure now around 55 percent. Use of this figure lessens the legal basis for revision of assessments for those property owners unlucky enough to be assessed at 70 or 80 percent or some other figure in excess of 55. The proposal for freezing the level at 55 percent would theoretically provide greater protection, but when this policy has been followed in other states it has been universally unsuccessful, since the actual figure soon drops below the specified percentage. In practice, since 100 percent assessment appears to be politically impossible, the primary emphasis in real property assessment must be along the lines of greater intra-county equalization and greater effort on the part of local assessors to iron out individual inequities.

The neglected field of property taxation has been the portion of the tax applying to personal property. Intangibles are assessed in nominal amounts only; inclusion of all such items would be neither desirable nor administratively feasible, and taxation of certain forms only, such as bank deposits, would be discriminatory and would drive this form of property to havens in other states.

It has often been suggested that classification of intangibles (which would necessitate a constitutional amendment) and taxation of them at a low rate would result in their being returned to the tax rolls. It is true that a few states, such as Ohio, which have taxed intangibles at a low rate for many years, have been successful, and substantial revenue is obtained. But whether Illinois taxpayers would list their intangibles under such a system, after decades of non-reporting, is very doubtful. The best solution is probably outright exemption of all intangible property, a step which would essentially legalize the present practice and end the anomalous situation in which virtually every Illinois taxpayer commits perjury annually. Income from such property would be reached by a personal income tax once such a levy were imposed.

The case of tangible personal property, however, is entirely different, and the recent tendency to suggest the same treatment for this class as for intangibles is most unfortunate. More complete taxation of such property would broaden the tax base, reduce the burden on real estate and improve equity, since some persons have considerable wealth in this type of property, particularly automobiles, but own little or no real property. Exemption of this property is highly objectionable. Even though not all property of this type can be discovered, many items can, and there is no excuse for any leakage of automobiles, since payment of tax can be made a prerequisite for obtaining the next year's license, a rule employed by most states. Likewise, general classification, with different rates for different types of property (beyond mere special treatment of intangibles), is of very doubtful desirability; there is no logical basis for any rate differentiation, and the latter quickly becomes the object of political pressures.

Technological Unemployment

(Continued from page 2)

That is why an equipment boom by itself, that is, without construction and the other facilities required for true expansion, is unlikely to sustain prosperity. It displaces workers without expanding total employment fast enough to ensure continued growth in the over-all market. According to the McGraw-Hill survey of planned capital outlays, two-thirds of business capital expenditures in 1959-62 are expected to be for replacement and modernization rather than expansion — the highest proportion in any year since 1950. This is hardly an unmixed blessing. Its counterpart is shown in other expected changes in the 1959-62 period — sales up 18 percent, employment up only 8 percent.

Income-Distribution Aspects

If the effects of laborsaving machines are looked at from the income point of view, it may be seen that they necessarily produce some redistribution of income. For one thing, there is an immediate shift from wages to property income. Wage costs are reduced. Capital costs are increased somewhat but by less than the reduction in income. The over-all reduction in cost represents the net gain in efficiency.

The further changes in the income distribution depend upon how the net saving in cost is allocated. One way, with prices fully maintained, would be for all of it to go into profits. In this case, opportunities for investment would have to expand continuously, to absorb all the additional profits as well as the savings of individuals, in order to keep the economy on the growth gradient.

The other way the cost saving might be used is in reduction of prices. In this case, consumers are benefited. To the extent that their incomes are maintained they realize a higher real income. Only if they step up their expenditures to match the increase in real incomes will demand and production be fully maintained.

Thus, there are three necessary or possible allocations of the wage reductions effected by the introduction of laborsaving machinery — increased interest or other capital charges, higher profits, and an increase in real income to earners whose incomes are maintained. In a situation where growth is temporarily stalled, none of these provides full offsets for the loss in wages. Investment prospects are no longer adequate and consumers with high incomes are in a position to save more. Hence, the depressing effects of technological unemployment are not counterbalanced by the shift in income from labor to other income recipients.

The unions tend to place heavy emphasis on the income-distribution aspects. They want to correct the situation by redistributing income in favor of wages through shorter hours at the same pay. Whether it can be corrected in this way is a question. If prices rise, purchasing power would still be restricted. Moreover, the abrupt increase in costs might accelerate the substitution of machines for men or it might at least temporarily react on investment and drive the economy down.

In any case, it is hardly realistic to expect the earners of other types of income to agree to what is clearly a biased demand. However, all kinds of income must be effectively used if the economy is to remain healthy. If management cannot see its way to putting the requisite volume of savings into real capital, the decline will reduce property income in any case, absolutely as well as relatively, and then a redistribution will be effected anyway, with almost everybody worse off. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Consumer Spending for Medical Care

Private expenditures for medical care amounted to $15.1 billion in 1957, almost double the $7.6 billion spent in 1948, according to an article in the March issue of *Business Record*. After adjustments are made for population growth and price increases, 1957 expenditures still exceed those of 1948 by almost $2 billion. On a per capita basis private medical-care expenses rose from $52 per person to $88 during the ten-year period.

Each of the major components of medical-care expenditures shared in the total increase, but rates of growth varied widely, thus altering the relative importance of various items (see chart). The sharpest rise occurred in spending for hospital services which replaced payments for physicians' services as the largest component. The latter increased 68 percent between 1948 and 1957, while hospital services jumped 136 percent.

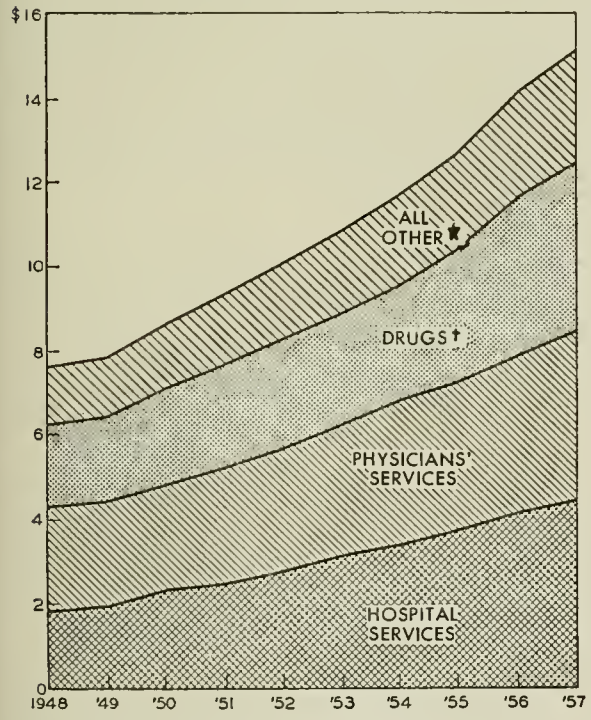
Personal Income Distribution

The Commerce Department, in its annual article on personal income distribution appearing in the April issue of the *Survey of Current Business,* reports that 54.5 million families and unattached individuals received $338 billion in personal income in 1958. Thus, the mean income was raised to $6,220 last year from $6,200 in 1957. In real terms, however, the mean personal income last year was below both 1957 and 1956.

The article also indicates that almost two-thirds of all consumer units had personal incomes between $2,000 and $8,000 before taxes in 1958. This group accounted for 50 percent of total personal income during the year. The 5 percent that earned $15,000 or more received about 19 percent of the total. The following tabulation shows the percentage distribution of consumer units and income by family income levels for 1947 and 1958:

Personal income (before taxes)	Consumer units (Percent)		Percent of total personal income	
	1947	*1958*	*1947*	*1958*
Under $2,000	25	14	7	3
$2,000–$3,999	38	22	28	11
$4,000–$5,999	20	25	24	20
$6,000–$7,999	9	17	14	19
$8,000–$9,999	3	9	7	13
$10,000–$14,999	3	8	8	15
$15,000 and over	2	5	12	19
Total	100	100	100	100

TOTAL SPENDING FOR MEDICAL CARE
(Billions of dollars)



* Other professional services and nursing homes.
† Medicines and appliances.
Source: National Industrial Conference Board, *Business Record,* March, 1959, p. 150.

State Government Revenue

The general revenue of state governments climbed to an all-time high of $21.8 billion in 1958, an increase of 6.8 percent over the 1957 total of $20.4 billion, according to the Census Bureau in its *Summary of State Finances in 1958.* Some advance in general revenue was reported for 44 states, with gains of one-fifth or more being recorded in Indiana, Rhode Island, and Wyoming. Total Illinois general receipts increased 9 percent.

All major revenue sources, with the exception of individual income tax receipts, contributed to the rise. The largest percentage gain was recorded in intergovernmental revenue from the federal government which increased 27.5 percent from $3.5 billion in 1957 to $4.5 billion last year. A major part of this advance resulted from greater federal grants for highways and public welfare.

The biggest source of state revenue continues to be general and selective sales and gross receipts taxes. This source brought in about $8.8 billion in revenue last year, a 3.7 percent gain over 1957. Receipts from various license fees showed only slight gains during the year.

Individual income taxes, effective in 31 states, totaled $1.5 billion in 1958, 1.2 percent below 1957. At the same time, receipts from corporation net income taxes rose 3.4 percent and moved above $1 billion for the first time.

Largest Manufacturers

The April, 1959, issue of *Business Record,* gives a complete listing of the 300 largest manufacturers, plus detailed financial data of the top 200 firms. The 1957 ranking according to assets was led once again by the Standard Oil Company of New Jersey, followed by General Motors and United States Steel. Seven new names entered the ranks of the top 200 manufacturers and represented a variety of industries which ranged from machinery and textiles to petroleum and chemicals.

More than 80 percent — 167 companies — of the first 200 corporations reported increased assets in 1957, representing a gain of $8.8 billion over the 1956 total of $116.2 billion. Only three companies among the top fifty reduced their total assets between 1956 and 1957. The first 25 companies accounted for one-half of the $125 billion asset total, with the top ten companies alone comprising one-third. Assets ranged from $150 million for number 200 to $8,712 million for the top company, the highest total ever recorded for any manufacturer.

LOCAL ILLINOIS DEVELOPMENTS

In March the major indicators of Illinois business activity turned up. Construction contracts awarded jumped 70 percent above February as the building season opened up. Bank debits and life insurance sales were up 5 percent in the month, while petroleum production, electric power output and coal production made lesser gains.

When compared with March, 1958, most of the indexes showed declines. Construction contracts and bank debits both gained about 17 percent and life insurance sales 12 percent. Only farm prices, off 7 percent, moved down.

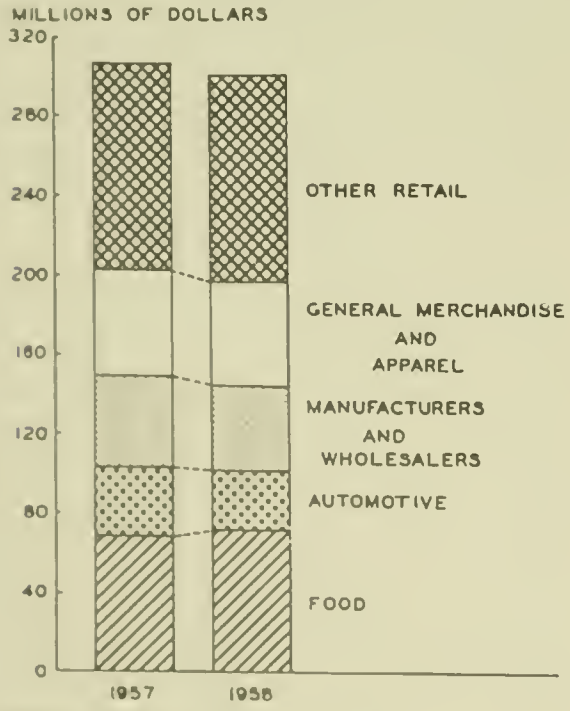
Tax Collections Off

Sales and use tax collections declined in 1958, but food stores and filling stations made gains against the general recession trend. The accompanying chart shows that the $330 million of tax collections for 1958 was 2 percent less than in 1957. It also shows that taxes paid by food stores gained almost 5 percent, to over $70 million, thus raising the share of the total paid by food stores from 22 percent to 24 percent.

The only other group realizing larger sales was filling stations, with a gain of 2.8 percent. In contrast, auto dealers showed the largest decline, almost 14 percent, so that its share dropped almost to 10 percent, or just over $30 million in taxes paid. It lost third place to eating and drinking places, which showed a decline of less than 2 percent.

Other large losers were manufacturers (down 7.6 percent), lumber and building materials suppliers (down 5.8 percent), and wholesalers and jobbers (down 3.9 percent). The remaining groups — including general merchandise, apparel, and furniture — showed changes within 1 percent of the over-all average.

SALES AND USE TAX REVENUE, 1957 AND 1958



Source: Illinois Department of Revenue

Fewer Employees in 1958

Total nonagricultural employment in Illinois averaged 3.3 million in 1958, about 180,000 or 5 percent below the 1957 average. Every major industry except government, and finance, insurance, and real estate participated in the decline.

The largest reduction in employment occurred in manufacturing, where the average number of employees fell nearly 140,000 to 1.1 million. The durable goods industries accounted for more than 110,000 of this cutback.

Among the nonmanufacturing industries, transportation and public utilities experienced a drop of 6 percent in the number of employees at work in these lines, while employment in mining, quarrying, and petroleum production declined 5 percent and that in contract construction fell 3 percent. The number of employees in retail trade also dropped 3 percent.

None of these figures includes self-employed workers, unpaid family workers, domestic servants, or members of the armed services.

New Steel Capacity

Three companies have announced improvements that will increase Illinois steelmaking capacity. Acme Steel Company, Riverdale, will modernize its No. 2 hot strip mill and increase the capacity of its Riverdale plant by 125,000 tons annually. The firm only recently started producing steel at this plant. Plans also call for new finishing equipment in Riverdale.

Borg-Warner Corporation is expanding the steel ingot capacity of its Calumet Steel Division. A new melt shop, two electric furnaces, a rolling mill, and other auxiliary structures and equipment are included in the plans. The expansion will add about 120,000 tons to the plant's annual capacity. Inland Steel Company plans to improve and expand its Chicago Heights plant. The work will include modernization of the rolling mills, the addition of new rolling stands and motors, and the extension of two buildings and the construction of one new structure to house additional equipment. The improvements will make possible a three-shift operation.

Power Firm Plans

The Illinois Power Company has announced that it plans to spend approximately $200 million in the next five years for gas and electric additions. A total of $146 million is scheduled for electric expansion, and the remaining $54 million will be spent on the gas program. During 1959 the utility plans to spend about $36 million of the total amount, of which nearly $27 million will go for electric additions.

Gas additions include development of underground storage facilities near Freeburg, south of Belleville. If the chambers prove successful, the utility would be able to provide space-heating service to an additional 17,000 homes in the Belleville, Collinsville, East St. Louis, Edwardsville, East Alton, Granite City, and Wood River areas. Carlinville, Gillespie, Hillsboro, Litchfield, and Staunton will also get more space-heating service. The gas program contemplates a second underground storage field near Belleville if the first is successful. The second field would permit addition of another 17,000 space-heating customers.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1959

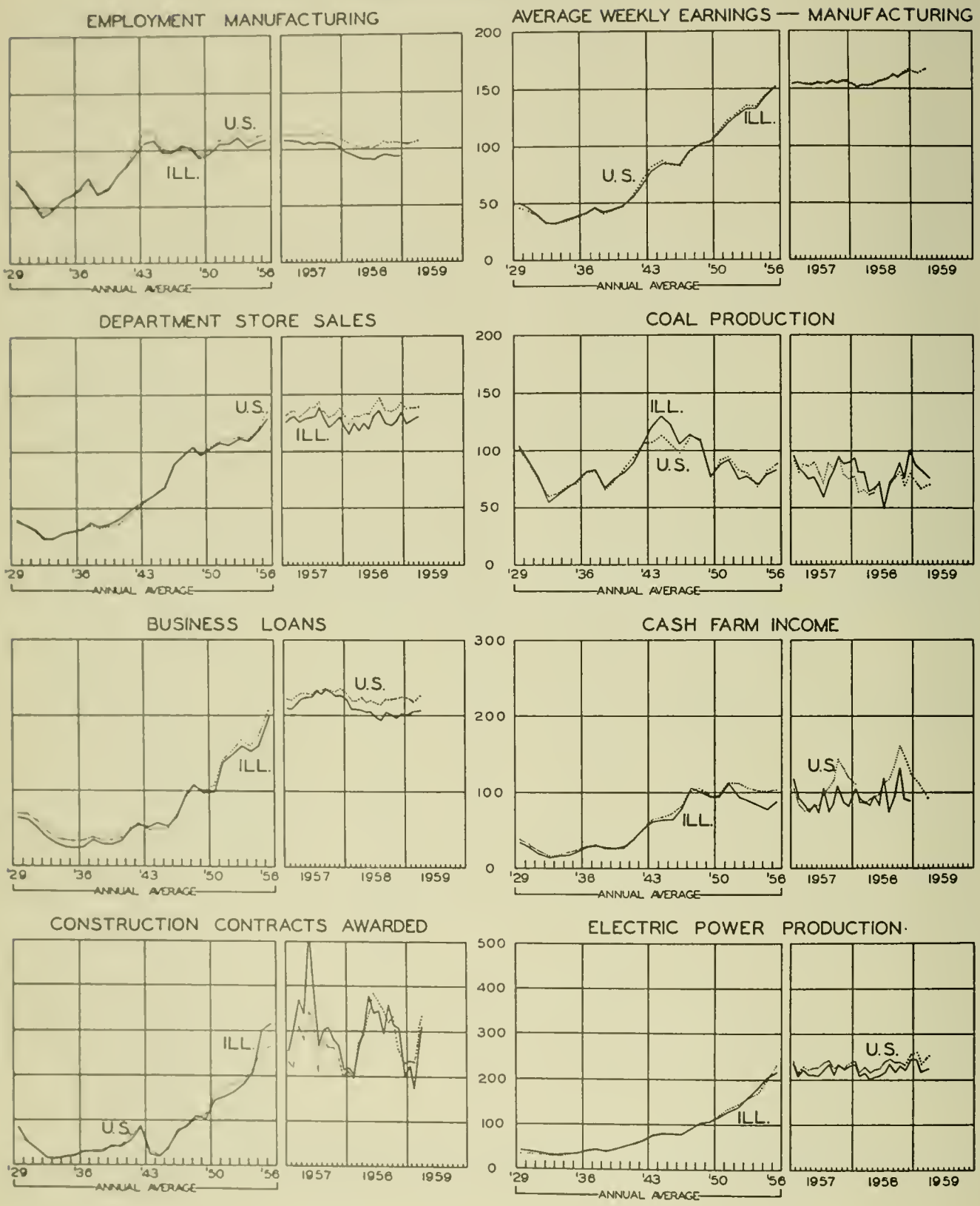
		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$35,958[a]	1,256,044[a]	$515,275[a]		$19,375[a]	$16,190[a]
Percentage change from	Feb., 1959	+91.1	−0.6	−2.7	+24	+27.4	+6.7
	Mar., 1958	−21.2	+9.7	+4.8	0	+16.9	+20.2
NORTHERN ILLINOIS							
Chicago		$21,590	941,825	$383,664		$17,929	$13,993
Percentage change from	Feb., 1959	+51.8	−0.2	−3.3	+23	+28.7	+7.3
	Mar., 1958	−38.9	+7.9	+4.1	−1	+17.7	+19.2
Aurora		$ 499	n.a.	$ 7,617		$ 74	$ 161
Percentage change from	Feb., 1959	−12.5		−3.9	+48	+18.1	+3.2
	Mar., 1958	−78.9		+4.4	+8	+12.7	+19.2
Elgin		$ 271	n.a.	$ 5,522		$ 48	$ 121
Percentage change from	Feb., 1959	+89.5		+5.8	n.a.	+15.2	+13.5
	Mar., 1958	−36.1		+10.4		+13.3	+31.0
Joliet		$1,962	n.a.	$ 9,270		$ 84	$ 104
Percentage change from	Feb., 1959	+1,089.1		−1.0	+37	+13.0	−3.2
	Mar., 1958	+316.6		+8.6	+9	+9.2	+28.0
Kankakee		$ 174	n.a.	$ 4,466		n.a.	$ 63
Percentage change from	Feb., 1959	+241.2		+0.6	n.a.		+12.5
	Mar., 1958	+34.9		+10.1			+14.8
Rock Island-Moline		$3,423	26,445	$ 9,928		$ 105[b]	$ 171
Percentage change from	Feb., 1959	+356.4	−8.0	−4.6	n.a.	+9.8	−3.6
	Mar., 1958	+291.6	+10.2	+7.9		+5.9	+15.0
Rockford		$1,074	50,302[c]	$15,463		$ 191	$ 245
Percentage change from	Feb., 1959	+620.8	+0.2	−6.1	+27	+15.4	−1.0
	Mar., 1958	+5.2	+11.0	−0.5	+5	+6.2	+14.4
CENTRAL ILLINOIS							
Bloomington		$ 862	8,829	$ 4,774		$ 77	$ 117
Percentage change from	Feb., 1959	+515.7	−5.0	−1.2	n.a.	+20.5	+16.7
	Mar., 1958	+322.5	+2.7	+5.8		+8.4	+35.7
Champaign-Urbana		$ 495	13,253	$ 7,167		$ 77	$ 121
Percentage change from	Feb., 1959	+385.3	−6.9	+2.6	n.a.	+6.8	+9.6
	Mar., 1958	−54.6	+6.6	+4.5		+5.5	+23.9
Danville		$ 270	13,339	$ 5,162		$ 49	$ 71
Percentage change from	Feb., 1959	+1,488.2	−3.9	−3.3	+38	+6.4	+2.1
	Mar., 1958	−66.1	+10.7	+8.3	+17	+5.2	+21.6
Decatur		$ 759	36,122	$ 9,881		$ 120	$ 126
Percentage change from	Feb., 1959	−44.3	+3.3	−1.0	+31[c]	+12.4	+4.5
	Mar., 1958	+291.3	+1.7	+0.4	+12[c]	−1.6	+21.5
Galesburg		$ 143	9,720	$ 4,086		n.a.	$ 45
Percentage change from	Feb., 1959	+921.4	−2.1	−2.9	n.a.		−4.8
	Mar., 1958	−62.9	+8.0	+3.9			+47.7
Peoria		$1,908	56,340[c]	$15,626		$ 246	$ 294
Percentage change from	Feb., 1959	+364.2	−4.4	+1.2	+23[c]	+15.9	+3.1
	Mar., 1958	+150.7	+21.9	+10.8	+14[c]	+18.1	+29.2
Quincy		$ 351	11,345	$ 4,400		$ 49	$ 75
Percentage change from	Feb., 1959	+190.1	−5.0	+1.7	+19	+10.1	−7.0
	Mar., 1958	+27.6	+21.1	+7.5	+2	+19.5	+25.6
Springfield		$1,269	35,427[c]	$11,556		$ 129	$ 320
Percentage change from	Feb., 1959	+291.7	−2.6	−2.4	+34[c]	+8.3	+4.1
	Mar., 1958	+45.7	+0.0	+8.8	+10[c]	+0.6	+50.7
SOUTHERN ILLINOIS							
East St. Louis		$ 155	15,331	$ 8,012		$ 150	$ 71
Percentage change from	Feb., 1959	+115.3	+2.5	+5.8	n.a.	+12.7	−10.1
	Mar., 1958	+4.7	+23.5	+13.9		+5.8	+23.1
Alton		$ 379	27,999	$ 4,514		$ 48	$ 41
Percentage change from	Feb., 1959	+312.0	+6.3	+2.0	n.a.	+21.0	+5.9
	Mar., 1958	+41.9	+120.4	+15.8		+17.2	+26.6
Belleville		$ 374	9,769	$ 4,167		n.a.	$ 51
Percentage change from	Feb., 1959	+246.3	−4.7	+1.6	n.a.		+3.8
	Mar., 1958	+790.5	+6.6	+8.3			+29.5

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for February, 1959. Comparisons relate to January, 1959, and February, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending March 6, 1959, and March 7, 1958.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MAY

Industrial production moved up to another new high in May, with the seasonally adjusted index rising 2 points to 152 (1947-49 = 100). On an adjusted basis, steel, autos, paperboard, and a number of other products made output gains. Employment increased more than seasonally, reaching 66.0 million, and unemployment declined further to 3.4 million. A preliminary estimate placed department store sales at an adjusted 145 percent of the 1947-49 average, up 5 points from April.

Autos Doing Well

The automobile industry turned out almost 547,000 cars in May, 56.5 percent more than a year ago and the largest May production since 1955. Allowing for one less working day, output was about the same as in April.

Retail sales of new cars amounted to nearly 530,000 in May, up 5 percent from the preceding month and 35 percent from May, 1958. Dealers' stocks of new American cars were estimated at 910,000 by the end of the month. With "float" and inventories of foreign cars, the total was over a million. This represents about 50 days' supply at recent sales rates.

The High Cost of Money

The increase in the discount rate from 3 percent to 3½ percent near the end of May, the fourth since the low of 1¾ percent in effect last summer, reflected the continuing rise in the cost of money as well as the Federal Reserve System's growing concern over the volume of debt outstanding. Higher interest rates were evident throughout the economy.

The Treasury's short-term borrowing costs rose again during the month, its last May issue of 13-week bills being marketed at 2.878 percent. On May 18 leading commercial banks raised their "prime" rate from 4 percent to 4½ percent, and Treasury bonds reached record lows. Near the end of the month Consolidated Edison sold $75 million of 30-year bonds to an underwriting group on an interest cost basis of 5.105 percent, probably the most expensive borrowing on utility bonds of comparable quality in more than a quarter of a century.

New Highs in Building

Another seasonal rise in new construction put in place pushed outlays by this industry to $4.6 billion in May, 1 percent above April and 15 percent above May, 1958. This was a record for the month and brought expenditures in the first five months of 1959 to $19.7 billion, 13 percent above the comparable months of 1958 and a new high for the period.

With outlays in May for new nonfarm dwelling units at $1.4 billion, 41 percent over the year-earlier month, private construction reached $3.2 billion. Industrial building continued to fall far behind the rate of spending for this type of construction last year. Several other types, including office buildings and warehouses, hospital and institutional, farm construction, and public utilities, were down from year-earlier levels by smaller percentages.

A big increase in highway spending was the major factor in the rise in public construction to $1.4 billion. At this level public expenditures were about 15 percent above April and the corresponding period in 1958.

Business Sales, Stocks Up

After seasonal adjustment, sales of manufacturing and trade firms in April amounted to $60.5 billion, a rise of $1.4 billion from March and $8.5 billion from April, 1958. Manufacturers accounted for $1.1 billion of the increase, bringing their sales to $30.2 billion; sales of durable goods industries rose $700 million in the month to $15.1 billion. Wholesalers enjoyed a $300 million increase in business, most of it in nondurables, whereas retail trade showed no change from the $17.9 billion in March.

Inventories continued to rise, an increase of $900 million carrying the total to $87.3 billion. Stocks held by manufacturers amounted to $50.8 billion, $500 million more than at the end of March, with most of the increase in the durable goods industries. Wholesalers and retailers added small amounts to their inventories, raising them to $12.1 billion and $24.4 billion respectively.

Instalment Debt Balloons

April saw the largest increase in consumer instalment debt for any month since 1955. The seasonally adjusted addition amounted to $423 million and brought the total outstanding to $34.5 billion. Automobile paper accounted for about half of the increase; the total of this type stood at $14.7 billion, the first time it has equaled the year-earlier figure in many months. Other consumer goods paper was up $120 million; repair and modernization loans expanded by lesser amounts.

A rise in single-payment loans was responsible for the $56 million advance in noninstalment debt, a small decrease in charge accounts being offset by an equal increase in service credit. Total short- and intermediate-term debt of consumers rose to $44.9 billion.

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ILLINOIS BUSINESS REVIEW

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Design for Obsolescence

Modern modes of stimulating demand through invention, improvement, and change have taken a curious twist towards building obsolescence into the design of widely used consumer durable goods. Advertisers and salesmen apparently prefer "newer" to "better" as a selling slogan, and the whole orientation of industry shifts towards giving them something new even though it may be inferior. The wrap-around windshields on recent-model autos are a prime example of a feature that combines expense and a host of new disadvantages without any significant gain in safety. This trend has gone so far that one consultant recently informed a congressional committee that "... sometimes it seems as though modern styling was created only to hinder both car and driver . . . when a styling feature vies with a practical feature, or a safety feature, styling usually wins."

The problem is not confined to styling or to the auto industry. Annual model changes for other consumer durable goods are widespread. An aviation executive recently described engineering for mass-produced consumer products as "quick and cheap, cheap and dirty."

The High Cost of Repairs

Industrial design has concentrated on making products lightest, lightest, or at lowest cost, without regard to the fact that emphasis on these criteria may make for inordinate maintenance and repair costs. Final products are often made up of subassemblies welded, molded, or riveted in such a way that the individual parts cannot be replaced. Parts are often chargeable, moreover, by materials or processes which hinder durability in use. Then the whole unit or subassembly must be replaced with the failure of the weakest part.

[illegible] (1) When a couple of teeth break off a timing gear in a washing machine, the gear, worth perhaps 50 cents, cannot be replaced except as an assembly, housing at $10.75. (2) When a steel strap holding a TV vertical linearity choke in a high model set breaks, the repairman can only replace it with a kit of parts, including [illegible] brackets and bolts. (3) The [illegible] can be replaced with an assembly worth $4.45 [illegible] $11.75. The first is an extreme example of charging high prices for replacement parts because the only way for the consumer to salvage the residual value is by making the repair.

Complexity of design, lack of access, need for special tools and testing devices, and other difficulties often make repairs impossible except in a well-equipped shop. The consumer is not only forced to turn the work over to someone else but is urged to go only to an "authorized" shop. These shops often ape the hospitals in pretences of care and cleanliness, and the prices they charge are correspondingly blown up.

In the auto repair business, high prices have resulted in a shifting of routine repair work away from the car dealers. Filling stations and independent garages have been gaining an increasing share of the market at the expense of franchised dealers.

For other products, the consumer's situation is in some respects worse. The appliance manufacturers have been at pains to imitate the auto industry by taking the repair shops into their selling organizations. Converting the repairman into a salesman in this way has to some extent subverted the repair function. Many would rather sell than repair. They urge the customer to trade in his vacuum cleaner or washing machine on a new one rather than to repair the old model. The trade-in discounts offered are generally less than the customer could get at a discount house, and the old machine might well give as good service as a new one if it were repaired.

Quality or Competition

To the auto industry's credit, the system of repairs by new car dealers has not worked out too badly. The scale of operations in this instance is big enough and competition is well enough developed to give most consumers a reasonable choice of alternatives. Furthermore, the used car market is vigorous enough almost everywhere so that definite values can be placed on cars in use. None of these conditions hold for other appliances, however, and policies of accelerated obsolescence where there is no standard resale market merely put a "take it or leave it" choice before the consumer.

Consumers faced with this kind of choice search for other alternatives. They know their ideas of quality are reasonable. To practically all, quality means carefree use and the absence of failures, at least in the early years after a purchase is made. To many, it also means a product that can be serviced anywhere at reasonable cost and not one that has to be coddled into precarious operation in a clinic of repair specialists.

Failure to meet consumers' needs or standards of quality is an invitation to competition. In the auto industry it has reversed our traditional role as net exporter. Last year, imports far exceeded exports. The share of our market taken by foreign makes approached 10 percent—a figure twice as high as anyone in the industry thought likely just a couple of years ago. Moreover, a recent survey by the National Association of Automobile Dealers showed a good deal of buyer loyalty to the imported cars. Six out of seven import-owners believed their next purchase would be another imported car.

The problem faced by the auto industry may be encountered in more acute form by other industries. What happens after the consumer gets a product is likely to be more important as a determinant of its future sales than its style features or their ballyhoo accompaniment. The success of the TV producer who offered better quality at less supports this thesis. Rewards may also go to others with farsighted policies that give the consumer a break with better quality and service. VLB

BOOK PUBLISHING

Book publishing in the United States dates back to 1638 when the Cambridge Press (later the Harvard University Press) was granted book-printing privileges by the British government. Until the mid-1800's, however, the principal sources of books for this country were foreign book houses, especially British firms. By 1880, the industry had become firmly established here; the number of new titles during that year exceeded 2,000, just slightly less than the entire 2,200 titles released during the first 200 years of book publishing in this country.

Since the beginning of the present century, the United States has moved into undisputed leadership in book production and has, in addition, become the world's largest exporter. This supremacy has been attributed to three major factors: (1) the technological improvements in printing and papermaking, (2) a rapidly expanding population benefiting from the introduction of a national public school system in the late 1800's, and (3) the refinement and application of mass marketing methods.

Book Field Today

Book publishing, although not as large as the other two major publishing areas (newspapers and magazines), received more than $1.5 billion from sales last year. As in the nineteenth century, the industry still consists of relatively small companies in a highly competitive field. The five leading establishments accounted for only 13 percent of the new titles released in 1957.

One of the characteristics common to the industry has been the low proportion of firms with printing plants. Many companies, especially the smaller ones, maintain only editorial-sales offices and farm out the actual printing work. The large quantity of contracting work is necessary because a majority of the companies cannot be assured of a volume sufficient to offset heavy plant expenditures and high overhead costs.

The industry's chief revenue producers are the trade (or general) books which made up about one-third of total sales last year. Other major book classifications and percentages of total receipts were textbooks (29 percent), encyclopedias and reference books (16 percent), technical and professional volumes (10 percent), and religious books, including Bibles and hymnals (6 percent).

Books reach the public today through more than 9,000 outlets, including 2,600 bookstores. Although the latter continue to handle a major share of the book traffic, they have felt keenly the competition from the diversity of newer outlets, such as drug stores and groceries.

Probably the most outstanding feature of the postwar industry has been the increased emphasis upon mass markets. This has been achieved by the sharp rise in the paperback trade, combined with the older, widespread distribution of the more than fifty book clubs. Actually, low-cost paperbound books are not new, but merely an adaptation of the paperbacks introduced in the United States about 1790. Today, these books appear to be cutting into the hard-cover market, as the number of original titles appearing in this form continues to increase. It is estimated that, in all, the paperbacks accounted for nearly two-fifths of all copies sold last year.

Trends and Problems

There has been a steady increase in the number of new book titles published during the postwar period, with a rise from 7,735 in 1946 to 13,142 in 1957; during the same interval, the number of volumes published jumped from 445 million to 825 million. Despite these increases, the total amount spent on books per person is declining, possibly because of the conflicts with other leisure-time pursuits, such as television.

Since 1946, the prices of most books have failed to rise as sharply as the costs of materials and labor because of the industry's fear of losing the volume market. Because this has reduced profit margins (especially in trade books), publishers have been turning to supplemental markets, such as motion pictures, book clubs, and royalties from reprint houses. But these newer markets are primarily interested in the "best sellers." Hence, the industry has tended to select only those works with mass sales potential, to the detriment of new but unproved authors and of books of merit which have a limited audience. In addition, this emphasis has opened the way toward standardizing the selection of new books according to past success.

Illinois — Second Largest Book State

Book publishing shifted from Massachusetts to New York toward the end of the last century when mass production and marketing became essential elements in the industry. Today, the industry is dominated by two major states (New York and Illinois), which account for about 70 percent of the total value of book shipments. New York, still the largest producer, remains the principal trade-book center, whereas Illinois has become the leader in technical and textbook output. Last year, Illinois publishers shipped books valued at about $200 million.

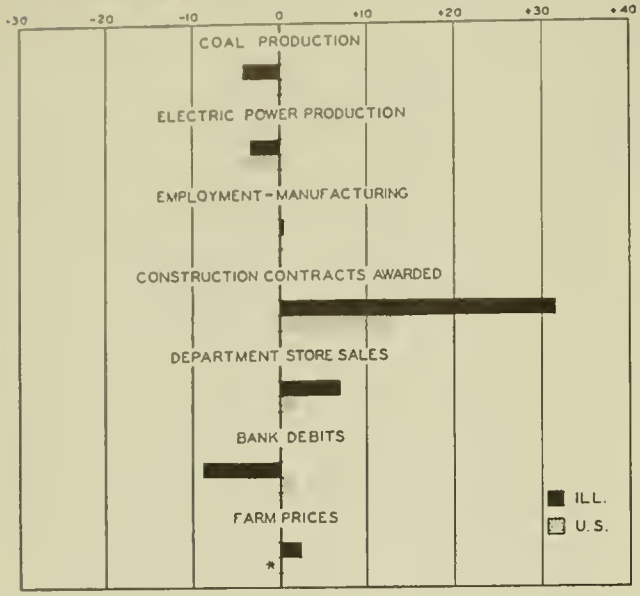
There are about 90 publishers in Illinois, 90 percent of whom are located in the Chicago metropolitan area. Although more than two-thirds of these firms employ fewer than twenty persons, Illinois has the highest average employment per establishment in the nation, 67. Despite this high average, only a few of the state's houses own printing plants.

Illinois publishers, because their chief product has been educational volumes, do not face the economic problems encountered in the trade-book states. Unlike trade-book houses, technical and textbook publishers have been able to pass costs along to consumers. For example, from 1947 to 1954, the average wholesale price of books in New York (a trade-book state) dropped from 91 cents to 83 cents, whereas in Illinois, the average rose from $1.15 to $1.32 per volume. Also of major consequence to the publishers here will be the expected rise in school enrollments, which should bolster the educational book field for many years.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1959, to April, 1959



* No change.

ILLINOIS BUSINESS INDEXES

Item	Apr. 1959 (1947-49 =100)	Percentage change from Mar. 1959	Percentage change from Apr. 1958
Electric power[1]	220.6	− 3.4	+ 9.6
Coal production[2]	73.7	− 4.1	+14.7
Employment — manufacturing[3]	101.0[a]	+ 0.4	+ 4.5
Weekly earnings—manufacturing[3]	n.a.	.....	.....
Dept. store sales in Chicago[4]	135.0[b]	+11.6	+ 2.3
Consumer prices in Chicago[5]	127.4	+ 0.2	+ 0.3
Construction contracts awarded[6]	410.4	+31.7	+21.5
Bank debits[7]	202.5	− 8.6	+16.9
Farm prices[8]	84.0	+ 2.4	− 6.7
Life insurance sales (ordinary)[9]	327.4	+ 0.5	+ 7.0
Petroleum production[10]	122.7	− 5.0	− 0.4

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1959	Percentage change from Mar. 1959	Percentage change from Apr. 1958
	Annual rate in billion $		
Personal income[1]	372.7[a]	+ 0.9	+ 6.6
Manufacturing[1]			
Sales	362.4[a]	+ 3.8	+21.8
Inventories	50.8[a, b]	+ 1.0	− 1.4
New construction activity[1]			
Private residential	20.6	+12.0	+33.0
Private nonresidential	14.4	+ 3.1	− 4.6
Total public	15.3	+16.9	+17.9
Foreign trade[1]			
Merchandise exports	17.5[c]	+13.8	− 6.2
Merchandise imports	15.6[c]	+16.3	+ 3.8
Excess of exports	1.9[c]	− 4.1	−48.1
Consumer credit outstanding[2]			
Total credit	44.9[b]	+ 1.6	+ 5.3
Instalment credit	34.5[b]	+ 1.5	+ 4.6
Business loans[2]	31.2[b]	+ 0.2	+ 3.5
Cash farm income[3]	26.3[c]	− 2.3	+ 3.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	149[a]	+ 1.4	+18.3
Durable manufactures	164[a]	+ 2.5	+25.2
Nondurable manufactures	140[a]	+ 0.7	+12.0
Minerals	123[a]	+ 0.8	+12.8
Manufacturing employment[4]			
Production workers	99	+ 1.0	+ 7.2
Factory worker earnings[4]			
Average hours worked	101	+ 0.2	+ 5.2
Average hourly earnings	168	+ 0.4	+ 5.7
Average weekly earnings	170	+ 0.7	+11.2
Construction contracts awarded[5]	381	+13.1	+31.1
Department store sales[2]	140[a]	+ 1.4	+ 7.7
Consumer price index[4]	124	+ 0.2	+ 0.3
Wholesale prices[4]			
All commodities	120	+ 0.3	+ 0.6
Farm products	92	+ 1.8	− 5.4
Foods	107	0.0	− 3.9
Other	128	+ 0.2	+ 2.2
Farm prices[3]			
Received by farmers	90	0.0	− 5.3
Paid by farmers	120	+ 0.8	+ 2.6
Parity ratio	82[d]	0.0	− 5.7

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for March, 1959; comparisons relate to February, 1959, and March, 1958. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1959 May 30	1959 May 23	1959 May 16	1959 May 9	1959 May 2	1958 May 31
Production:						
Bituminous coal (daily avg.)....thous. of short tons..	1,405	1,402	1,374	1,392	1,373	1,284
Electric power by utilities....mil. of kw-hr....	12,761	12,931	12,684	12,659	12,546	11,155
Motor vehicles (Wards)....number in thous....	143	161	163	163	144	82
Petroleum (daily avg.)....thous. bbl....	7,203	7,216	7,178	7,200	7,113	6,242
Steel....1947-49=100....	154	153	153	151	152	91
Freight carloadings....thous. of cars....	688	686	694	677	674	530
Department store sales....1947-49=100....	122	139	137	158	141	116
Commodity prices, wholesale:						
All commodities....1947-49=100....	119.5	119.6	119.7	119.6	119.8	119.3[a]
Other than farm products and foods..1947-49=100....	127.8	128.0	128.1	127.9	128.0	125.5[a]
22 commodities....1947-49=100....	88.2	88.1	88.1	87.8	87.5	86.3
Finance:						
Business loans....mil. of dol....	31,664	31,674	31,587	31,369	31,230	29,795
Failures, industrial and commercial...number....	264	259	311	265	275	278

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for May, 1958.

RECENT ECONOMIC CHANGES

Machine Tools

Orders for metal-cutting machine tools amounted to $40.5 million in April, according to the latest report by the National Machine Tool Builders' Association. The April figure was slightly above March's $40.3 million and well over the $22.9 million of a year earlier. For the first four months of this year new orders totaled $145.8 million, compared with only $94.5 million for the same period in 1958.

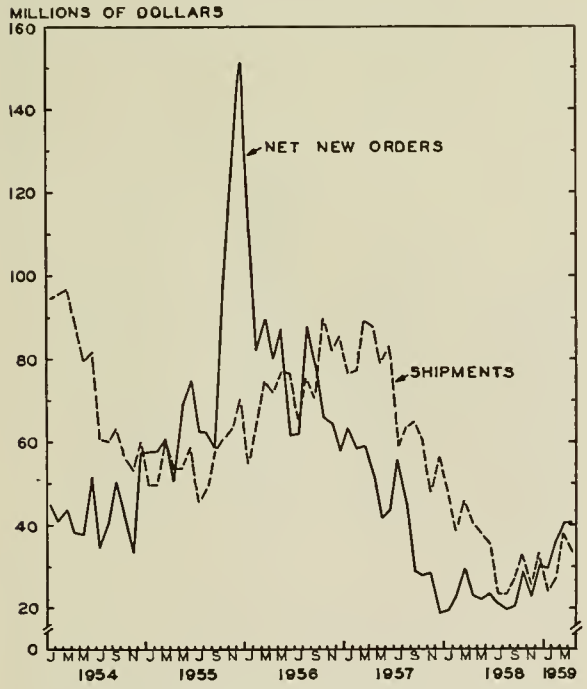
Although machine tool orders have shown a sharp recovery from the poor record of last year, they are still running at only half the rate of 1955 and 1956 (see chart). A two-year peacetime boom produced well over $900 million in new orders in each of those years. The present pace, if maintained throughout the year, would bring orders of metal-cutting tools for 1959 close to the $519.9 million level of 1957. Last year new orders came to only $281.0 million.

Current shipments of machine tools are running behind new orders for the first time since the 1955-56 period. In April, shipments of metal-cutting tools fell to $33.5 million from $37.8 million in March. For the first four months, shipments totaled $121.8 million, compared with $172.3 million in the corresponding 1958 period. The relatively small volume of current shipments reflects the low new order pace of last year.

Personal Income

Personal income climbed $3.2 billion in April to a record seasonally adjusted annual rate of $372.7 billion. The Commerce Department reported that the April increase matched the February-to-March advance. The two latest increases represent the biggest monthly rises since July, 1955, when personal income went up by $3.4 billion. The April rate was $23 billion above the year-earlier pace.

MACHINE TOOLS



Source: National Machine Tool Builders' Assn.

An advance of $2.9 billion in wage and salary payments was the main factor in establishing the new high personal income rate. The adjusted annual rate of wage and salary disbursements amounted to $252.9 billion in April compared with $232.0 billion a year ago. As in March, the April gain was centered in manufacturing industries, particularly metals and machinery, reflecting higher employment and increased hours worked.

Disbursements under both the regular and temporary unemployment compensation programs declined again in April, according to the report. However, other social security payments continued to increase, thus raising total transfer payments $100 million to $26.2 billion. Other types of income showed little or no change.

For the first four months the annual adjusted rate of personal income was $367.6 billion, up $18.9 billion from the corresponding 1958 period.

Consumer Prices

The Labor Department's consumer price index rose 0.2 percent in April to 123.9 percent of the 1947-49 average. This brought the index back up to the record high that was first reached in July and equaled in November last year. The index has been relatively stable in the past ten months with no monthly change, either up or down, of more than 0.2 percent occurring during this period. From April, 1958, to April, 1959, the over-all increase in the index has been only 0.3 percent.

The relative stability of the general index, however, is not reflected in its major components. A decline of 3.3 percent in food prices over the year has been the main factor which has prevented the general price level from reaching new highs. Prices of all other items have risen an average 1.7 percent, with services, which make up about one-third of the total index, leading the way with an increase of 1.9 percent. This service-group index has climbed continuously since early 1951, and in April it stood at 144.8.

Individuals' Savings

Savings by individuals in the United States continued at a high rate in 1958 but fell below the postwar record of the previous year. Net financial savings totaled $16.2 billion last year, compared with $18.1 billion in 1957.

There was a considerable alteration in the composition of savings in 1958. Individuals saved only $600 million in the form of securities, the lowest amount since 1954. In 1957 individuals' savings in securities amounted to $6.9 billion. Most of this change was attributable to liquidation of United States government marketable issues, coupled with smaller acquisitions of corporate bonds and state and local government obligations.

Another important change was the substantial increase in bank deposits and currency. These forms of savings jumped from $5.1 billion in 1957 to $10.3 billion last year, the highest level since 1946. Savings accounts in mutual savings and commercial banks, increasing sharply in the early recession months, then tapering off as general economic conditions improved, showed an over-all advance of $7.8 billion for the year. Demand deposits experienced an opposite movement and at year-end showed a net rise of $2.1 billion. Currency holdings were increased by $400 million.

A record growth in savings shares in savings and loan associations and credit unions added another $6.5 billion to these advances in liquid assets.

RUSSIA'S SEVEN-YEAR CHALLENGE

MARVIN FRANKEL, Research Associate Professor

Nikita Khrushchev recently asserted his belief that attainment of a major Soviet goal was near at hand:

> The superiority of the USSR in the rate of growth of production will create a real basis for overtaking and outstripping the United States within about five years following 1965 . . . by that time or perhaps even earlier, the Soviet Union will have moved to first place in the world both in gross and per capita output. . . . It will be a history-making victory of socialism in the peaceful competition with capitalism.

The occasion for his remarks was the introduction of a new seven-year plan to run from 1959 through 1965. The new plan, the initial phase of a longer fifteen-year program, would, according to the Soviet leader, bring his country within striking distance of, or capture for it, the major economic titles now held in the West.

Soviet aspirations have a counterpart in United States concern over their possible realization. We view the prospect of Soviet parity with alarm because we regard our high output and living standards as testimony to the worth of our way of life. We do not find congenial the thought that radically different and highly distasteful political and economic institutions might, by certain much revered tests, prove as efficacious as our own.

There are, in addition, pragmatic reasons for our concern. We are anxious about the military implications of substantial Soviet economic gains. Will not the allocation of yet more resources to the Soviet armed forces, already a fair challenge to our own, greatly increase our difficulties in providing an effective counterforce? We are apprehensive also of the consequences that large economic advances may have on Soviet foreign trade and aid and relatedly, on the attitudes and allegiances of the world's uncommitted peoples.

Major Goals of the Seven-Year Plan

During the seven-year period of the plan, the projected increase in gross national product is 65 percent, or about 7.3 percent per annum. Industrial output is slated for greater expansion, about 80 percent for the period or approximately 8.6 percent per annum. The plan calls for consumption to advance in line with national product and for agricultural output to move ahead a bit more rapidly, by 70 percent over the seven years.

In terms of the relative emphasis placed on major sectors and categories of goods, the plan seems to be of the same general pattern as its post-1950 predecessors. Measured by intended rates of growth, heavy industry continues to be favored over light and consumer goods industries, and the industrial over the agricultural sector. The priority rating of the consumer appears to be unchanged. Though comparatively large gains are sought in a few areas — some foodstuffs and certain household durables — there is no indication of any basic shift in his favor. It is perhaps symbolic of the consumer's status in official thinking that Khrushchev, in his painfully extended address to the Communist Party Congress on the new plan, should give almost three times as much space to heavy industry as to consumer goods industries.

Compared with the rates of advance specified in earlier plans for such major aggregates as national product and industrial output, those designated in the current one represent a cutback. Thus, for national product the annual rates of growth called for in the 1951-55 and the interrupted 1956-60 plans were, respectively, 10.9 percent and 9.9 percent. The current rates are modest also when compared with official claims about past achievements, and they seem to be entirely consistent with those realized from 1950 to 1957. Using data supplied largely by Western observers, it may be estimated that for this period Soviet national product rose at an average yearly rate of 8.5 percent and industrial output at 10 percent. The increases currently planned in the same categories — 7.3 percent and 8.6 percent — are somewhat below these figures, which suggests that in light of economic experience the goals are plausible ones.

Labor Shortage a Serious Obstacle

Goals that seem plausible in terms of past performance need not, on that account, be plausible in terms of the future. Lack of manpower is the chief difficulty that the Soviets must overcome. Primarily because of war losses, recruitments to the labor force in the coming years will be much below those of previous years. A dramatic aspect of this situation is the disclosure in the recently completed population census that there are in the country 20 million more women than men, with virtually all of the imbalance in the over-32 bracket. In the absence of war, the many millions of children that these women would have borne would be entering the labor force over the next several years. It has been estimated that from 1956 to 1965 the population of prime working ages (males aged 15 to 59 and females aged 15 to 54) will rise by only about 8 million, whereas in the shorter 1950-56 period it grew by close to 14 million.

With labor supplies restricted, heavier reliance than otherwise must be placed on productivity gains in order to achieve output targets. If, for example, the industrial sector shares in additions to the labor force from 1958 to 1965 on the same basis as in recent years, productivity will have to rise about 7.5 percent annually in order to meet the 1965 target. This exceeds significantly the 6 percent annual increase realized from 1950 through 1957 and the increase of similar magnitude provided for in the plan. Moreover, the 7.5 percent figure makes no allowance for a planned shortening of the workweek, to be effected by 1962, from the present 46 hours to 40 hours. Such a shortening, should it come about, would in effect wash out the benefits of growth in manpower and make planned growth in output wholly dependent on productivity gains.

Some relief from the tight labor situation might be had if, through an increase in participation rates, available manpower could be more fully utilized. Although the plan seems to be counting on this possibility, its prospects are not promising. Participation rates already are high, with about 70 percent of the adult population regularly employed. By contrast, in the United States, with its shorter workweek, the figure is about 50 percent.

There is virtually no hope that any shortfall in the industrial sector will be compensated by overfulfillment of plans in agriculture. Although planned expansion in the latter sector is less than in the former, it is greatly in excess of anything realized in the past. The grimness of the record is reflected in frequent failures to meet targets and in the fact that, until the fifties, output hovered at or below 1928 levels. The past several years,

which embrace the new-lands program and various policy reforms that have provided more autonomy for the collective farms and better price and income incentives, have witnessed a notable improvement. But the gains have been far below those now projected. Moreover, little further contribution can be expected from bringing new lands under the plow. Major reliance must now be placed on improving the methods of cultivation and on overcoming the many obstacles to the upgrading and diversifying of output.

As if to make already-difficult tasks still more difficult, the plan projects productivity increases on the collective farms considerably in excess of the expected increase in output. The intent is, apparently, that some workers should be released from the land to ease the shortage in industry. It is worth noting in this connection that during the past seven or eight years the agricultural labor force has tended to expand, not diminish. One may rightly be skeptical of Khrushchev's assertion that "all the prerequisites have been created" in this sector for a successful seven-year push.

Ways of Raising Productivity

Investment in productive facilities is a principal means by which productivity gains are secured, and a sufficiently high rate would do much to meet current needs. Unfortunately, it is by no means clear what, in the present case, a sufficiently high rate would be. The limited information available, however, suggests no marked increase in the fraction of national product devoted to investment nor, with the possible exception of a somewhat larger share for agriculture, any serious change in its allocation among the major sectors. To reach targets, therefore, either the payoff from investment outlays will have to rise somewhat or other sources of productivity improvement will have to be found.

Industrial organization and management constitutes one area in which current deficiencies are a source of potential future strength. The shortcomings in this sphere are legion, and have inhibited the most economic development and utilization of the resource endowments of the several regions. Over-all, it may be said of the system that it has been geared to the fulfillment of major priorities, but at a cost of much inefficiency and waste.

The program of economic decentralization, under which much of the authority vested in ministries in Moscow has been transferred to many widely dispersed regional economic councils, was launched in response to these failings. The ultimate test of this program lies in the longer term, and it is reasonable to expect transitional difficulties in the early years. Notwithstanding, the opportunities for improvement are numerous and large. It must be expected that many of these will be capitalized on in the interval to 1965, with commensurate benefits for productivity.

These considerations permit no firm judgment on the ability of the Soviets to fulfill their goals. A conservative Western view, one concerned to avoid underestimating the Soviet Union's capabilities, might be that modest deficiencies — and large ones in agriculture — are possible, but that many of the targets will be reached.

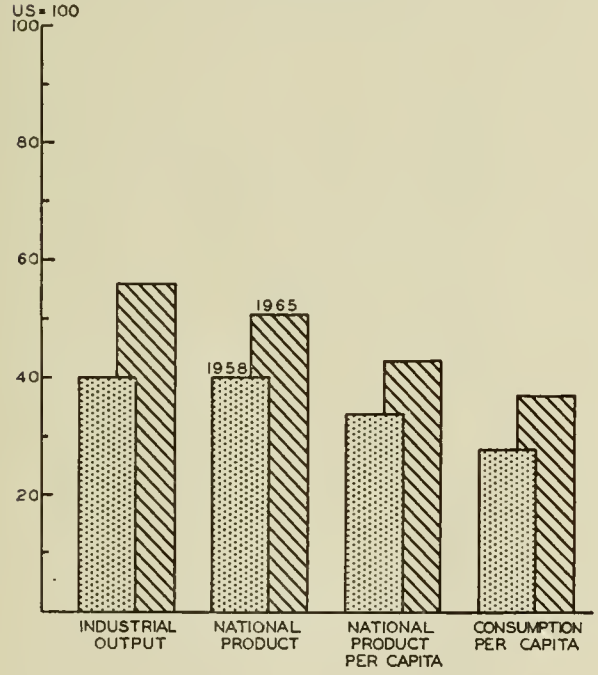
Little Chance of Surpassing the US

Should the Soviets succeed in their efforts, there remains the question of whether, as Khrushchev has asserted, output levels will approximate those in the United States, with the stage set for surpassing this country within the following few years. In 1958, despite its rapid growth of the thirties and the years following World War II, the Soviet Union lagged far behind the United States in every major economic category.

Only rough estimates can be given of the extent of the lag. Hazards and limitations always affect efforts at quantitative comparison of two economies, and the hazards are multiplied where the Soviet Union is involved. But it appears that, as of 1958, both Soviet national product and industrial output were about 40 percent of United States levels. Per capita national product was only about one-third the level in this country, and because of relatively heavy Soviet emphasis on investment and defense, per capita consumption was still lower. The latter might be put at a little over a fourth of that in the United States, and many Western specialists would consider even this figure too high. These comparisons are shown in the accompanying chart by the bars relating to 1958.

Given these initial positions, the state of things in 1965 may be computed for alternative sets of growth rates. The accompanying table indicates the procedure for industrial output. For the Soviet Union, three rates are shown. First is that registered from 1950 to 1957, and second is the planned rate to 1965. The third rate is essentially arbitrary and is presented to illustrate the outcome of a failure to realize targets. Of the two rates given for the United States, the first reflects 1950-57 experience. The rate for national product is not shown, but was the same as that for industrial output. The second United States rate reflects an optimistic view of the future, such as might be held by an advocate of a forthcoming "golden sixties" era for the American economy. The possible outcomes are summarized in the table (page 8).

SOVIET OUTPUT AND CONSUMPTION AS PERCENTAGES OF US LEVELS, 1958 AND 1965*



*For the US, industrial output and national product are projected at their 1950-57 rates (3.5% in each case). For the SU, industrial output and national product are projected at their planned rates (7.3% and 8.6%). In each case, consumption is projected at the same rate as national product. The per capita figures assume equal rates of population growth in the two countries.

Soviet Industrial Output as a Percentage of US Industrial Output in 1965, Given Alternative Growth Rates

US growth rate (percent per annum)	Soviet growth rates (percent per annum)		
	10	8.6	6
4.5	61	56	47
3.0	55	50	43

In the writer's view, the 3.5 percent rate for the United States is a reasonable assumption, being in line with recent performance and representing a middle ground between the possibilities of, on the one hand, accelerated future growth and, on the other, further setbacks like the one from which we are now emerging. For the Soviet Union, the difficulties already alluded to suggest that the planned rates are the best that country can hope for. Given these rates, the chart shows how much the Soviets would improve their position relative to the United States.

Since current Soviet levels are so much closer to those of Western Europe than to ours, the Soviet position vis-à-vis that area would be much better. If, however, the West Europeans should succeed in perpetuating their 1950-57 rates of growth, which were somewhat higher than those in the United States, the Soviet gains over the period would be relatively smaller.

Were United States-Soviet rates to be extended a further five years to 1970 — and to do so would be to accord the Soviets a margin of sustained advantage quite inconsistent with their long-term record — parity still would be some distance away. Soviet national product would be about 60 percent and industrial output about 70 percent of United States levels. Neglecting differences between the two countries in population growth, which in any event would little affect the outcome, per capita national product would be but half, and per capita consumption only slightly over two-fifths, of the amounts in this country. By 1970, far from having attained the preeminent position Khrushchev has marked for it, the Soviet Union would still rank a middling second in certain of the major economic categories and would fall well down the list in others.

For Khrushchev's hopes to be realized, it would be necessary for the American economy to stagnate over the next dozen years, with growth rates zero or negative, while the Soviet economy steadily advanced at planned rates. Such drastic assumptions may serve the Kremlin's political needs, but they are scarcely defensible economically.

No Security in Economic Dominance

It would be a mistake to seek comfort in these findings, or to believe that high or rapidly growing national product is the key to security or the remedy for cold war problems. The general economic and industrial strength of the United States, despite its critical role in two world wars and its contribution to West Europe's recovery, is in itself no adequate answer to either the economic or military challenges of a nuclear age. It is of course true that over-all capacity to produce fixes an upper limit to the effort an economy can make in any given area or combination of areas and that substantial industrial capacity is a primary ingredient of high living standards as well as a cornerstone of military power. It is true also that a people's per capita income has some bearing on its ability and willingness to sacrifice for a particular cause. But these factors hardly suffice to determine the allocations of a nation's resources among alternative possibilities.

Low over-all capacity has not deterred the Soviets from disproportionately large exertions — and achievements — in industry and the military domain and in the cultivation of high technical and engineering skills. They devote significantly larger fractions of available resources than do we to growth-generating investment and a somewhat larger fraction to their armed forces. In consequence, their rate of economic advance is more rapid and their military potential is of a magnitude that the combined Western powers, more heavily committed than the Soviets to consumption needs, find difficult to counter without strain. Their recent success in launching earth satellites and their evident capabilities in the realms of atomic energy and ballistic missiles have removed any doubt of their ability to work creatively at the scientific and technological frontiers.

The limited relevance of high output and living levels for challenges of the cold war variety, whether in issuing or defending against such challenges, is aptly illustrated by reference to China. Present trends indicate that within a decade or two that country may become a consequential industrial power in Asia and one capable of creditable scientific and technical achievement. Should that happen, her military potential would benefit accordingly and her political and economic influence would be vastly extended. The possibilities are real and their implications, both for China as the challenger and for us as the challenged, are little diminished by the fact that, measured by Western standards, China is likely to remain poor indefinitely.

Similarly, it is not apparent that perpetuation of this country's dominant output position will, by impressing the underdeveloped countries with our institutions and methods, ensure the emergence of democratic political forms in those lands or the winning by us of the allegiance of their peoples. Others are not nearly as sensitive as we to relative US-Soviet positions and rates of advance which, in any event, are subject to varied interpretations and which, by artful propaganda, can be made to look different from what they are. Of greater relevance for the underdeveloped countries are the social, political, and economic problems they face and the tensions under which they live. Moreover, the *volume* of assistance we render these areas, which in some measure is dependent on our over-all output, seems to be less important than other aspects of our aid program. In some parts of the world the Soviets, with far smaller outlays, have reaped greater returns.

In sum, high over-all output in the United States and maintenance of a decisive margin over the Soviet Union will not ensure a scale and quality of action in essential areas — investment, defense, foreign aid, education — that are sufficient to our needs. A low-income nation that attaches high priority to a particular group of objectives may turn in a performance relating to them that is the equal of a high-income nation. With respect to some objectives, a minimum critical effort by the low-income country may bring parity no matter what its more affluent rival does. Seventy-five million tons of steel may do as well as one-hundred fifty million, and a few hundred hydrogen weapons as well as a few thousand.

The simple and by no means novel lesson in all this is that the economic race has many dimensions, and that the highest score need not be tallied by the rival who wins the main event.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Gains in Business Population

The *Survey of Current Business* for May, 1959, reported that the United States business population reached a record number of 4.6 million operating concerns on January 1, 1959, a gain of 55,000 firms from a year earlier. This continues the small net gains that have been characteristic of the past ten years.

The recent rise was attributable to small net increases in all major industry groups with the exception of manufacturing and mining. The number of firms in the service and finance divisions — each with gains of 2.5 percent — showed the largest relative gains in 1958.

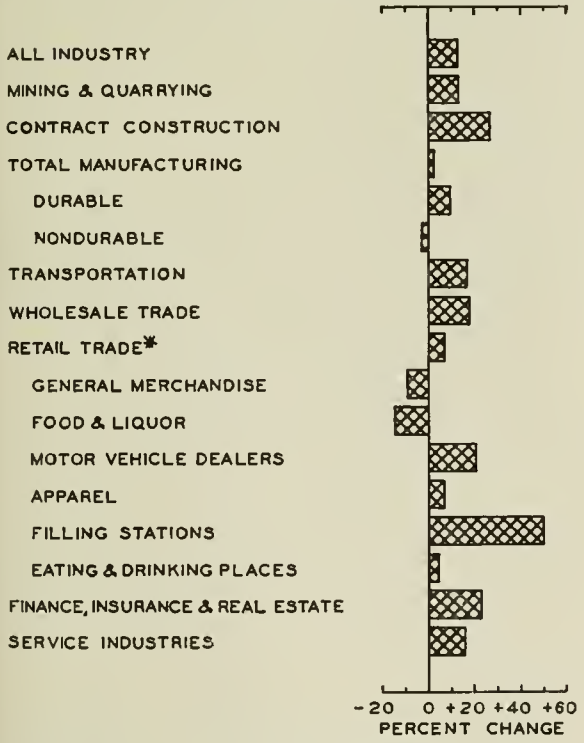
The number of firms in operation in all industries increased approximately 13 percent between the beginning of 1951 and the beginning of 1959. Contract construction and the finance, insurance, and real estate division experienced the greatest increases, advancing about one-fourth. Retail trade gained 7 percent, as large increases in filling stations and automotive groups more than offset the declines among general merchandise and food firms (see chart). Likewise, total manufacturing gained slightly because increases in durable goods manufacturing were greater than the drop in nondurable goods manufacturing firms.

Profile of the Jobless

A recent Department of Labor study on *Who Are the Unemployed?* reported that the big unemployment problems are confined mainly to manufacturing, especially durable goods manufacturing, and the so-called long-term "unemployables," those out of work fifteen weeks or longer. The study indicates that those having the most trouble finding jobs are workers with the lowest skills and the least training. They account for two out of every five workers looking for a job. Unemployment among white-collar workers is relatively low.

A breakdown by industry shows that unemployment was about 12 percent in the construction industry in April, 9 percent in the mining industry, and 7 percent in manufacturing. More than 1 million factory workers were still seeking employment in April, of which two-thirds were in the durable goods industries. The auto industry, which employs the largest group of factory workers, still has about 8 percent of its workers without jobs.

CHANGES IN THE NUMBER OF FIRMS IN OPERATION, 1951 TO 1959



* Total contains groups not shown separately.
Source: *Survey of Current Business,* May, 1959, p. 18.

New Piggyback Service

A small shippers' cooperative on the West Coast is trimming transportation costs for its members by as much as 35 percent to 50 percent through an innovation of piggyback service. Last year Western railroads introduced a transportation service for any shipper who provides his own flatcar and containers and guarantees a return trip. Under this new piggyback plan, a flat rate is charged on the basis of a 60,000-pound load, with the maximum load fixed at 80,000 pounds.

Both the railroads and shippers are benefited by this type of service. The rails are relieved of the burden of finding round-trip traffic, and their earnings per car can be increased as a result of heavier loading by the shipper. Shippers are able to reduce their freight costs because of the low piggyback rate and the by-passing of expensive terminal and transfer charges. Although the shipper must lease or buy his own equipment, these costs still do not cancel out all the savings from the lower piggyback rate.

Owners of Foreign Automobiles

The National Association of Automobile Dealers recently completed a survey of 10,000 American owners of foreign cars who bought their cars in 1956, 1957, or 1958. The results of the survey showed that professional people — doctors, lawyers, teachers, and scientists — are the largest group of owners of foreign cars, with 37 percent of the total. Managers were next, with 23 percent.

Foreign cars were found to be most popular among households with incomes between $5,000 and $7,500; those in this income range accounted for 29 percent of the buyers. Close behind are households with incomes of $10,000 to $20,000; these made up 26 percent of the buyers. Households with annual incomes of $7,500 to $10,000 comprised 22 percent of the buyers.

When asked why they purchased an imported car, 88 percent of the respondents gave "cheaper to operate" as one of their reasons. Other reasons given by more than half of the buyers were "easier handling in traffic," "easier to park," "not as much annual depreciation," and "better workmanship."

An overwhelming vote of confidence in foreign cars is given by present owners. About 60 percent of the owners of imported cars stated they would not have purchased a similar new American-made car if it had been available at the same price. In addition, 86 percent reported that they believed their next new car would be another imported automobile.

LOCAL ILLINOIS DEVELOPMENTS

In April the major indexes of Illinois business showed diverse movements. Construction contracts awarded jumped 32 percent above March. Seasonally adjusted department store sales rose 12 percent. In March personal income increased 1 percent over February. The major decline was in bank debits for selected cities, which dropped 9 percent. Declines of 5 percent and 4 percent, respectively, were experienced in petroleum production and coal production during the month.

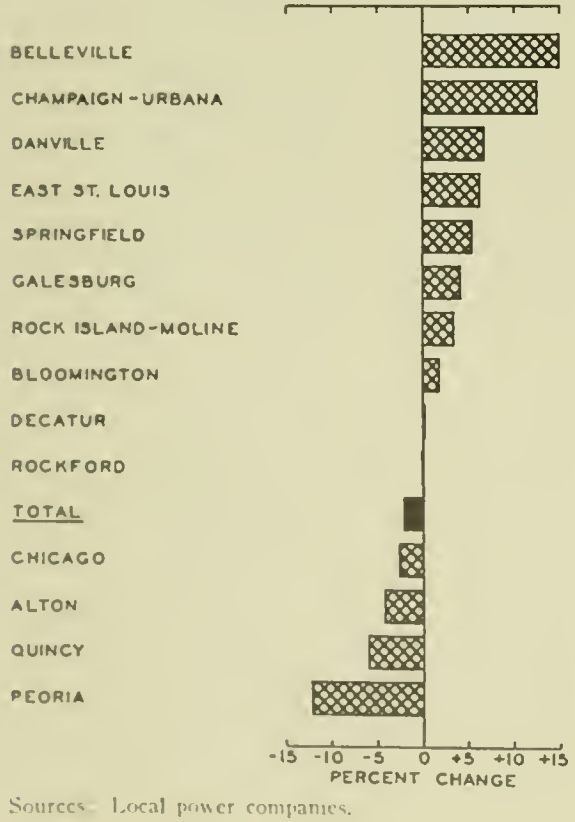
When compared with April, 1958, all of the indexes showed gains, with the exception of farm prices and petroleum production, which declined 7 percent and less than 1 percent respectively. Construction contracts advanced 22 percent, bank debits rose 17 percent, and coal production increased 15 percent from a year ago. Personal income in March was also 15 percent above the 1958 month.

Electric Power Consumption

Increased business activity during the last half of 1958 resulted in a slight rise, 0.3 percent, in the use of electric power in Illinois for the entire year. Approximately 39.0 billion kilowatt-hours were consumed in 1958 as compared with 38.8 billion kilowatt-hours in 1957. Total electric power consumption for sixteen major Illinois cities declined 2.2 percent from the 1957 level. These sixteen cities consumed 13.3 billion kilowatt-hours, or slightly more than one-third of the electric power consumed for the entire State.

Belleville and Champaign-Urbana had the greatest increases in power use, with gains of 15 percent and 13 percent respectively over the 1957 level (see chart).

CHANGES IN ELECTRIC POWER CONSUMPTION, 1957 TO 1958



Sources: Local power companies.

Peoria and Quincy experienced the greatest declines, with cuts of 12 percent and 6 percent respectively.

The St. Lawrence Seaway

The United States Department of Agriculture in its publication entitled *Agricultural Situation* reports some of the effects which the St. Lawrence Seaway will have upon Midwestern farmers. The report indicates that the costs of moving wheat in Liberty vessels via the Great Lakes Seaway route from Duluth, Minnesota, to Rotterdam or Casablanca will be 12 cents a bushel less than the lowest-cost route used prior to the Seaway's opening.

Earlier estimates were that about 42 million bushels of grain from Canada and the United States would move via the Seaway during 1959. Actual shipments, however, may be much larger. It was reported that by March 1 nearly 25 million bushels of grain had been booked for overseas shipment in April, May, and June.

At present most grain tonnage is expected to move in Liberty-type vessels that carry about 317,000 bushels each on the Seaway. As these ships are scrapped, modern, speedier combination lake-ocean bulk carriers that can carry up to 560,000 bushels of grain may replace them. This will further increase transportation economy via the Seaway.

New Rail Bridge

An $11 million railroad bridge across the Mississippi is to be constructed near Quincy by the Chicago, Burlington, and Quincy Railroad. Bids and plans have been approved by the Secretary of the Army through the Corps of Engineers.

The main bridge structure over the river will be supported by twelve piers. The Kansas City Bridge Company has received the contract for the substructures. The Bethlehem Steel Company has been awarded the contract for the superstructure and the LaCrosse Dredging Company for the fill.

The federal government will pay $2.9 million of the total cost of the bridge, which will replace one now in use.

Farm Real Estate Values

In the May issue of the *Farm Real Estate Market*, farm real estate value for the United States, which includes both land and buildings, was estimated at $125.1 billion or about $108 per acre. This represents a new record $8.8 billion, or 8 percent, above the previous high set a year earlier. California had the largest total dollar value of any state — nearly $12 billion. It was followed by Texas with $11 billion and Illinois with $9 billion.

Value per acre continued to be highest in New Jersey, where the average in March was $568 per acre. Among the more predominantly agricultural states, California continues to lead with a farm value of $308 per acre. Illinois rates second at $294 per acre, followed in order by Indiana at $245, Ohio at $242, and Iowa at $239 per acre.

Farm real estate values per acre in Illinois have jumped about 265 percent from 1940, 170 percent from 1950, and 78 percent from 1955. The table below gives the value of farm land in Illinois between 1956 and 1959.

Year (March)	*Value per acre*	*Total land value (millions)*
1956	$241	$7,329
1957	$260	$7,908
1958	$273	$8,304
1959	$294	$8,943

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1959

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$38,142[a]	1,202,910[a]	$573,767[a]		$17,703[a]	$16,634[a]
Percentage change from Mar., 1959	+6.1	−4.2	+11.4	+7	−8.6	+2.7
Percentage change from Apr., 1958	+38.6	+14.3	+8.1	+5	+16.9	+17.6
NORTHERN ILLINOIS						
Chicago	$25,450	872,562	$425,782		$16,250	$14,463
Percentage change from Mar., 1959	+17.9	−7.4	+11.0	+6	−9.4	+3.4
Percentage change from Apr., 1958	+71.4	+10.5	+8.4	+6	+17.4	+17.1
Aurora	$ 718	n.a.	$ 8,999		$ 74	$ 152
Percentage change from Mar., 1959	+43.9		+18.1	+4	−0.7	−5.4
Percentage change from Apr., 1958	−11.9		+14.2	+2	+19.4	+13.9
Elgin	$ 468	n.a.	$ 5,930		$ 46	$ 97
Percentage change from Mar., 1959	+72.7		+7.4	n.a.	−4.2	−19.8
Percentage change from Apr., 1958	+65.4		+2.7		+12.6	−0.4
Joliet	$1,118	n.a.	$10,421		$ 85	$ 123
Percentage change from Mar., 1959	−43.0		+12.4	+8	+1.3	+18.3
Percentage change from Apr., 1958	+49.7		+10.3	+4	+15.1	+45.6
Kankakee	$ 129	n.a.	$ 4,965		n.a.	$ 59
Percentage change from Mar., 1959	−25.9		+11.2	n.a.		−7.3
Percentage change from Apr., 1958	−72.4		+4.6			+4.5
Rock Island-Moline	$1,595	26,031	$10,669		$ 111[b]	$ 184
Percentage change from Mar., 1959	−53.4	−1.6	+7.5	n.a.	+5.6	+7.4
Percentage change from Apr., 1958	−27.5	+12.5	+8.1		+13.2	+29.2
Rockford	$2,025	48,415[c]	$17,736		$ 188	$ 251
Percentage change from Mar., 1959	+88.5	−3.8	+14.7	+16	−1.4	+2.3
Percentage change from Apr., 1958	+51.7	+11.7	+9.2	+6	+14.5	+12.2
CENTRAL ILLINOIS						
Bloomington	$ 500	8,486	$ 5,228		$ 71	$ 113
Percentage change from Mar., 1959	−42.0	−3.9	+9.5	n.a.	−7.9	−2.7
Percentage change from Apr., 1958	+214.5	+3.5	+1.7		+12.6	+15.8
Champaign-Urbana	$ 716	13,188	$ 8,007		$ 80	$ 119
Percentage change from Mar., 1959	+44.6	−0.5	+11.7	n.a.	+4.7	−1.9
Percentage change from Apr., 1958	−1.9	+9.7	−3.8		+13.8	+20.9
Danville	$ 256	13,777	$ 5,947		$ 51	$ 70
Percentage change from Mar., 1959	−5.2	+3.3	+15.2	+10	+5.1	−1.5
Percentage change from Apr., 1958	−70.9	+10.3	+4.1	+3	+12.2	+36.8
Decatur	$ 707	35,520	$11,214		$ 120	$ 136
Percentage change from Mar., 1959	−6.9	−1.7	+13.5	+1[c]	−0.1	+7.6
Percentage change from Apr., 1958	+62.2	+8.9	+3.1	+7[c]	+8.8	+27.6
Galesburg	$ 109	10,317	$ 4,665		n.a.	$ 48
Percentage change from Mar., 1959	−23.8	+6.1	+14.2	n.a.		+6.1
Percentage change from Apr., 1958	−74.8	+5.8	+8.9			+20.7
Peoria	$ 989	77,477[c]	$17,890		$ 246	$ 289
Percentage change from Mar., 1959	−48.2	+37.5	+14.5	+2[c]	−0.1	−1.6
Percentage change from Apr., 1958	+101.4	+68.4	+14.8	+13[c]	+14.4	+28.4
Quincy	$1,786	11,478	$ 5,010		$ 48	$ 81
Percentage change from Mar., 1959	+408.8	+1.2	+13.9	−1	−0.2	+8.8
Percentage change from Apr., 1958	+491.4	+24.4	+7.1	−7	+12.3	+29.7
Springfield	$ 911	34,007[c]	$12,957		$ 136	$ 286
Percentage change from Mar., 1959	−28.2	−4.0	+12.1	−1[c]	+5.2	−10.5
Percentage change from Apr., 1958	+7.6	+3.7	+1.1	−2[c]	+13.7	+15.0
SOUTHERN ILLINOIS						
East St. Louis	$ 176	15,024	$ 8,938		$ 153	$ 75
Percentage change from Mar., 1959	+13.5	−2.0	+11.6	n.a.	+1.9	+5.5
Percentage change from Apr., 1958	−86.7	+23.7	+14.0		+2.8	+38.8
Alton	$ 252	26,814	$ 4,872		$ 44	$ 41
Percentage change from Mar., 1959	−33.5	−4.2	+7.9	n.a.	−7.8	−0.7
Percentage change from Apr., 1958	−67.2	+123.3	+13.6		+13.8	+21.7
Belleville	$ 237	9,814	$ 4,535		n.a.	$ 47
Percentage change from Mar., 1959	−36.6	+0.5	+8.8	n.a.		−0.8
Percentage change from Apr., 1958	−47.0	+7.5	+5.5			+15.7

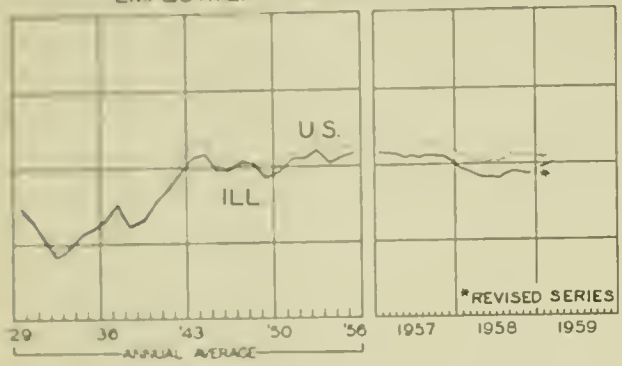
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for March, 1959. Comparisons relate to February, 1959, and March, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending April 3, 1959, and April 4, 1958.

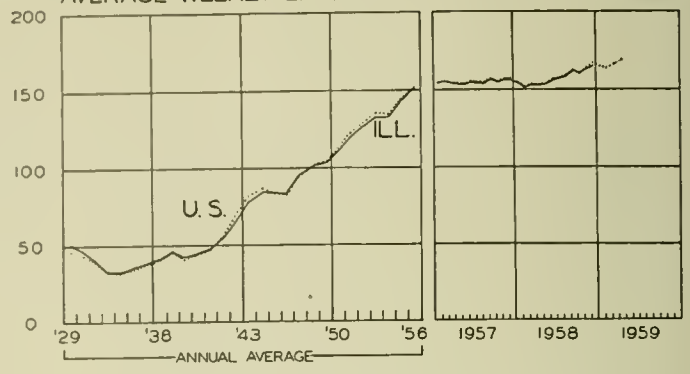
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

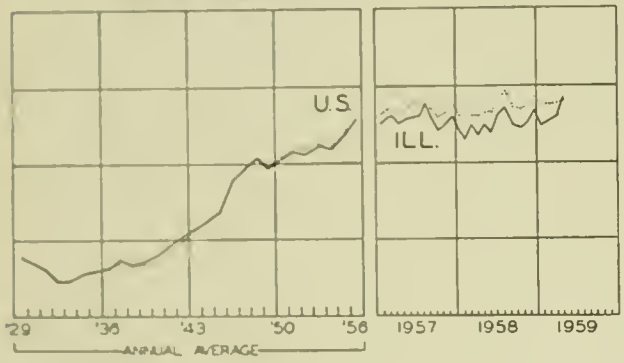
EMPLOYMENT MANUFACTURING



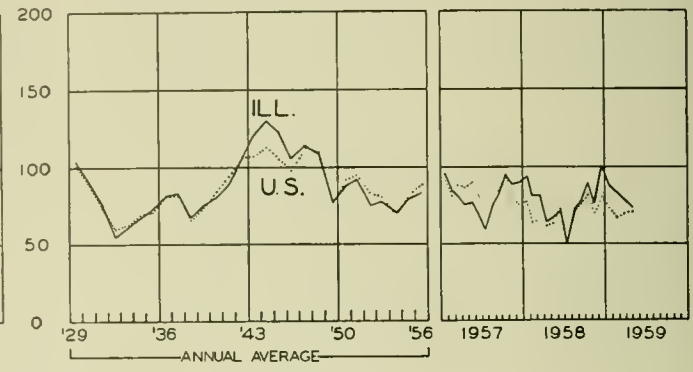
AVERAGE WEEKLY EARNINGS — MANUFACTURING



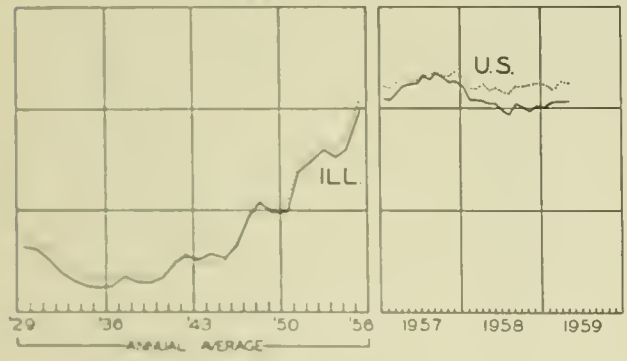
DEPARTMENT STORE SALES



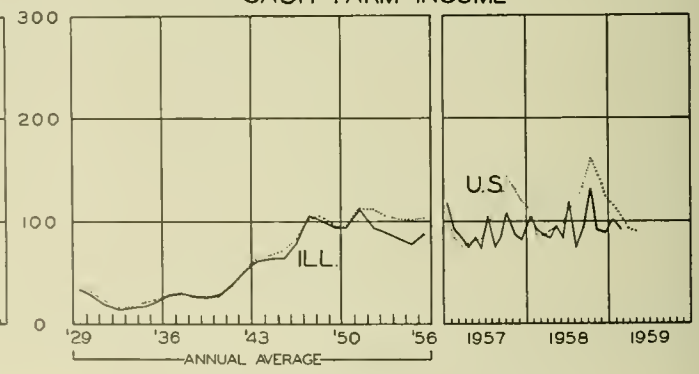
COAL PRODUCTION



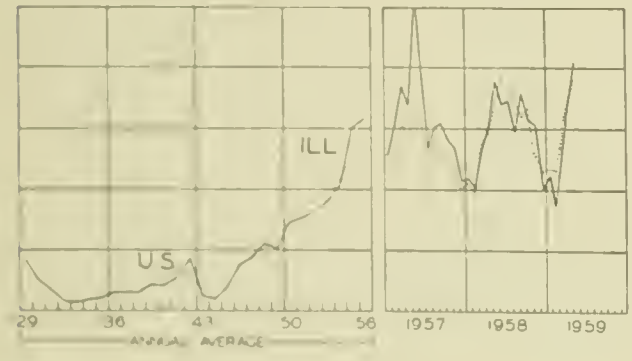
BUSINESS LOANS



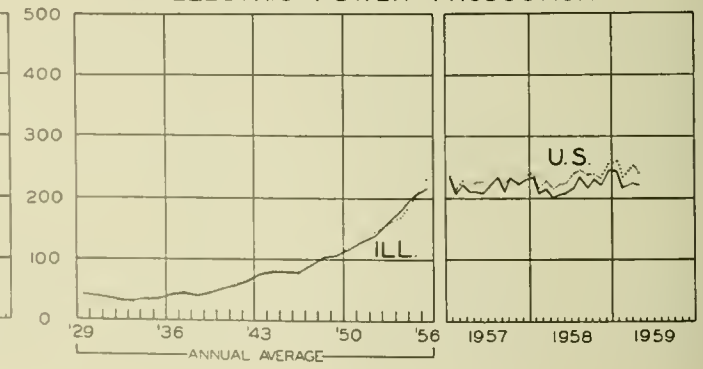
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JUNE

Business activity continued to expand in June. Employment hit a record high of 67.3 million, up 4.6 million since February. A preliminary estimate put seasonally adjusted department store sales 45 percent above the 1947-49 average, up 1 point from May. The index of industrial production rose 2 points to 155 (1947-49 = 100), and construction outlays declined slightly after allowance for seasonal influences.

Steel production dropped in the latter part of the month in response to several wildcat strikes and reduced buying. Automobile output held steady at a rate close to the year's high, as did paper and paperboard production. Output of bituminous coal was at a high for the year, but production of petroleum declined. Most other weekly series showed little change from May.

Construction Still High

A seasonal increase in construction outlays brought the total value of work put in place to new highs of $5.0 billion for June and $24.9 billion for the first half of the year. Both totals were up 15 percent from the corresponding periods last year. Thus far in 1959, the seasonally adjusted annual rate stands at $55.1 billion, compared with actual outlays of $49.1 billion for the entire year 1958.

Private spending came close to $3.5 billion in June, up 7 percent from May and 18 percent from the year-earlier month. Residential building, which has been responsible for much of the expansion in private construction this year over last year, increased less than seasonally in June, but most major types of private nonresidential building (including industrial construction, which had lagged badly in earlier months) expanded more than usual for the month. Construction by public utilities slipped behind the year-earlier rate.

Public expenditures for new construction amounted to $1.5 billion in June, 8 percent above May and 7 percent above June, 1958. The biggest advance during the month was in highway spending. Most other categories showed increases, but public residential building declined 7 percent.

Inventories Rise Further

The book value of manufacturing and trade inventories continued to grow in May, reaching a seasonally adjusted $88.2 billion by the end of the month. This was $600 million above the total at the end of April. Most of the increase was in stocks held by manufacturers of durable goods. Wholesalers' inventories rose $100 million to an adjusted $12.2 billion, whereas those of retailers held steady at $24.5 billion. Small increases in the stocks of durables held by these two groups were accompanied by steadiness or a decrease in nondurable inventories.

Total manufacturing and trade sales also continued to rise in May, climbing $600 million to an adjusted $61.2 billion. Retailers accounted for half of the gain, raising their volume to $18.3 billion, while manufacturers' sales increased about $200 million to $30.5 billion and those of wholesalers stayed about the same as the month before at $12.4 billion. The advance in retail sales was in nondurables, whereas that by manufacturers was mostly in durables.

New orders received by manufacturers in May fell $900 million to an adjusted $30.3 billion, mainly as a result of a decline in steel-buying. Makers of durable goods experienced $100 million of the reduction. Unfilled orders were off $600 million from the preceding month.

More Consumer Debt

In May consumers expanded their short- and intermediate-term debt a seasonally adjusted $545 million, or at an annual rate of $6.5 billion. The total outstanding at the end of the month amounted to $45.8 billion, up $2.8 billion from a year ago.

Instalment debt accounted for $443 million of the increase, raising this type to $35.0 billion, 6 percent above the end of May, 1958. Outstanding automobile debt rose $177 million, somewhat less than in April, as repayments increased and extensions stayed about the same. Other consumer goods paper expanded $151 million, the largest seasonally adjusted increase since 1952. Personal loans and modernization loans continued their steady upward trend.

Outstanding noninstalment debt rose $102 million during May, reflecting increases in charge accounts and service credit that more than offset a small decrease in single-payment loans.

Little Change in Price Indexes

The consumer price index rose a tenth of a point in May to 124.0 (1947-49 = 100), only slightly above the year-earlier figure of 123.6. At the same time the monthly index of wholesale prices fell two-tenths of a point to 119.8, whereas in May, 1958, it was 119.5. In June the weekly index of wholesale prices held steady at about the same level, and the weekly index of spot commodity prices, which had climbed from 84 in late February to slightly more than 88 in late May, declined a little.

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ILLINOIS BUSINESS REVIEW

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Riding the Crest

During the past year the economy has put the pessimists to rout. After a brief hesitation at the year-end, activity moved ahead vigorously. Most over-all indicators have reached new highs in the second quarter; the slow approach of nonagricultural employment to its 1957 peak reflects the increase in productivity during the past two years.

A great deal of uncertainty is introduced by possible international developments. The Berlin negotiations appear to be stalled and other areas are near the boiling point. Any substantial increase in hostilities would change the picture drastically, and in this possibility lies the primary basis for further inflation. Even assuming no important change in the international picture, conditions look reasonably good for the rest of 1959. Some segments will be advancing, others will be declining. The balance is close enough so that it is hard to tell how much, or even whether, activity will be higher or lower six months hence.

The Importance of Temporary Factors

Aside from the possibility of new international disturbances, there is no justification for projecting the sharp advance of the past year on into the future. Such forecasts ignore the role of temporary factors — inventory accumulation and consumer credit expansion — that cannot continue to advance significantly from current positions. These two factors together have accounted for just about half of the total advance in gross national product since the recession low.

The reversal in nonfarm inventories totaled $17 billion, from liquidation of $9 billion in the first quarter of 1958 to accumulation of almost as high a rate in the second quarter of 1959. Changes in inventories have therefore played the most important role in the recovery, as they did in the recession. Their role in the future will probably continue to be an unstabilizing one. At the beginning of the year, when net changes were small, there was a chance they might be neutral. Now they can only work against any further advance.

A year ago, when peak rates of liquidation were being reported, many optimists properly pointed out that the inventory reversal was already behind us. But no voice has recently been heard repeating this statement with the opposite implication. The current rate of accumulation is too high to be long sustained and the decline from this rate may again be the most important single influence in the business outlook during the year ahead. The situation may be interpreted favorably for the near future on the basis that the inventory-sales ratio is low, but this affords no continuing assurance. The ratio is typically lowest just as the high of the cycle is approached; after the high is reached, it rises, moderately at first and then sharply as sales begin to fall.

The reversal in consumer credit has been more moderate — from a $2 billion rate of liquidation to an expansion of more than $6 billion. Nevertheless, this rate of credit expansion is too high to continue, and together with inventory accumulation it poses a threat so large that there is nowhere in prospect any combination of favorable changes of a magnitude sufficient to counterbalance it.

It is true that there are long-term components in credit expansion. New methods of exploiting the consumer credit potential have been found, among them such devices as revolving-credit charge accounts and write-your-own-check monthly-repayment bank loans. There has been a seeming demise of an old virtue called thrift. The stimulus from all the new credit devices is helping for the time being to build up outstanding debt. However, the trend components in this picture are only a fraction of the current rate, and when the cycle turns, repayments as well as interest charges will constitute a fixed deduction from consumer income.

The bulk of the recent credit reversal is cyclical in character and is associated with the rebound in auto sales. In the first half of the year, these have regained the level of 1956 and 1957. The question is, Will 1960 be better? Hopes for a favorable answer are bolstered by the new "economy" cars to be introduced in the fall. But as one industry executive puts it: "These cars are a return to the size and power of 1949 models and there is really no reason to think they will revolutionize the market." Since the average dollar realization per car will be lower, the industry may need about a 5 percent gain in unit sales to keep its dollar sales as high as this year. It is not clear, therefore, that the auto market can provide any further stimulus to either total income or the rate of credit expansion.

Basis for High-Level Stability

In contrast to these unstable factors, the less volatile forms of non-consumption expenditure promise to hold very stable through the remainder of the year. The combined total of private investment and government purchases is likely to show only minor changes, perhaps advancing a little to the year-end and then probably falling back rather than increasing further. Net exports may tend to shift to the upside rather than continue down, but, again, any support the economy gains from abroad seems likely to be small in comparison with possible decisive changes in our own economy.

Business outlays for plant and equipment have made the turn and are currently making a moderate recovery. The Commerce-SEC survey projects this rise through the remainder of the year at an annual rate of about $1 billion per quarter. This should bring the fourth-quarter rate to $34 billion, or about 10 percent less than the previous high reached in 1957.

Statements that investment will continue up in 1960 are little more than unsupported judgments. The McGraw-

(Continued on page 6)

ST. LAWRENCE SEAWAY: GATEWAY TO THE MIDWEST

The Great Lakes-St. Lawrence River waterway has been a principal transportation outlet to the Atlantic since the early 1600's when trappers floated out their catch for ocean shipment to European markets. Intermittent improvements to channels between the Great Lakes and on the St. Lawrence River since the 1700's gradually made the 2,000-mile route navigable for larger vessels. Between 1870 and 1908, all the canals along the system were deepened to 14 feet, the governing depth for the past half-century. This year, however, marked the opening of 27-foot navigation as a result of the St. Lawrence Seaway Development project, a joint construction program by the United States and Canada.

Although construction was centered along the St. Lawrence River, the entire Great Lakes water route will profit from the deeper waterway to the sea. The project to enable larger vessels to begin moving in and out of the Great Lakes was begun in late 1954. Seaway construction costing $450 million included erection of seven large locks and a new system of canals between Montreal and Lake Ontario. The seaway, opened just three months ago, was dedicated in June.

The Great Lakes — Major Inland Waterway

Domestic trade has been vigorous between Great Lakes ports. In 1957, it comprised, excluding local traffic, four-fifths of total Lake tonnage and made up nearly 30 percent of national domestic tonnage (652 million short tons). The major proportion (85 percent) of foreign cargo on the Lakes has been interchange with Canada. The Lakes have never been a major waterway for other foreign ships, but the new, deeper channels and locks open this possibility. The old 14-foot canal system had an annual volume of freight averaging about 13 million tons. Because only the smaller salt-water vessels could move at this depth, foreign trade necessarily played a minor role on the Lakes. Waterborne imports and exports on the Great Lakes in 1957 totaled only 35 million tons, about 10 percent of the national total.

The new 27-foot channels open inland navigation to approximately 51 percent of the world's ocean merchant fleet. The larger and fewer locks will hold vessels of about 25,000 tons deadweight, some nine or ten times former capacities. The smallest lock holds ships 730 feet long and 74 feet wide compared with the former limits of 253 feet and 44 feet.

Expected Effects of the Seaway

Canada and the Midwest will, or course, be the chief beneficiaries of the improved system. The increase in Great Lakes foreign shipping volume is expected to be gradual, with only a 10 to 20 percent rise in the initial years. Bulk commodities, which currently make up more than half of foreign trade tonnage on the Lakes, are expected to have the greatest acceleration, whereas only a minimal increase is expected in general cargo traffic (packaged goods). By 1965, bulk goods may make up three-fourths of total foreign trade cargo.

Long-range developments for the Midwest may take three forms, according to seaway officials: (1) a gradual shift in national transportation patterns (if rates are established low enough), (2) further growth of industrial centers near ports, and (3) population growths from increased employment in these industrial areas.

The increase in larger ships should result in savings from the lower per-ton operating costs, as well as from a decrease in transshipments from lake craft to ocean vessels. Direct shipment offers possible savings from lower damage risk, weight loss, and deterioration of cargo.

The opening of the seaway will have adverse effects on some industries. For example, the Department of Commerce has listed 28 Illinois industries which may be hurt by stiffer competition from abroad — for example, certain types of machine tools (50 plants); aluminum, brass, and copper sheeting and rods (6 plants); leather products (22 plants); and plumbing brass goods (10 plants).

The improved system, however, will not be without difficulties and problems. A major deterrent to shipping arises from the fact that the Great Lakes are frozen over four months of the year. Another thorny problem has been the establishment of an equitable toll system. A complicated toll formula, which will attract users and yet help amortize the costs without siphoning away the markets of competing modes of transportation, has been devised. It may, however, be adjusted several times during the next five years.

Illinois — Great Lakes Shipping Center

The deeper seaway creates the prospect that Chicago may become a major world seaport. Its geographic location has already made it a major Midwestern transfer point between the various modes of transportation. The extensive river system and harbor installations in the Chicago area not only facilitate movement of material from the Great Lakes but also from inland waterways and rail terminals.

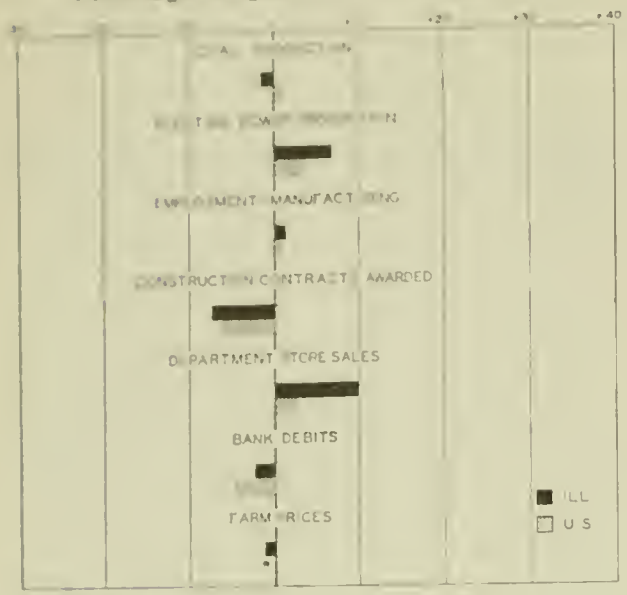
The Port of Chicago, which includes Gary and East Chicago, handled more than 43 million tons in 1956. This figure was exceeded only by the Duluth harbor, which is primarily a shipping outlet for iron ore (only 14 percent of total tonnage there was incoming in 1956). The Chicago-Gary-East Chicago port was the largest receiver of all types of tonnage during the same year, with a total of 29 million tons. Chicago shipped and received 40 percent (208,000 tons) of the total foreign cargo (excluding Canadian trade) on the Great Lakes in 1957. Chicago alone accounted for nearly $163 million in value of foreign and domestic goods shipped in 1957, or 22 percent of the total Great Lakes commerce during that year.

The St. Lawrence Seaway should prove a stimulant to inland foreign commerce, although expansion may come gradually. When this happens, Chicago, already the most important port of call for foreign ships entering the Great Lakes, could develop into a great national center of water as well as of rail and air transportation.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1959, to May, 1959



* No change

ILLINOIS BUSINESS INDEXES

Item	May 1959 (1947-49 =100)	Percentage change from April 1959	Percentage change from May 1958
Electric power[1]	235.7	+6.9	+14.3
Coal production[2]	72.8	−1.3	+ 9.4
Employment—manufacturing[3]	102.3[a]	+1.3	+ 7.6
Weekly earnings—manufacturing[3]	169.0[a, b]	−0.2	+10.5
Dept. store sales in Chicago[4]	128.0[c]	−5.2	+ 8.5
Consumer prices in Chicago[5]	127.4	0.0	+ 0.3
Construction contracts awarded[6]	380.2	−7.4	+ 0.4
Bank debits[7]	197.9	−2.3	+ 8.7
Farm prices[8]	83.0	−1.2	− 9.8
Life insurance sales (ordinary)[9]	314.5	−3.9	+10.0
Petroleum production[10]	121.1	−1.3	−11.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bl.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for April, 1959; comparisons relate to March, 1959, and April, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1959	Percentage change from April 1959	Percentage change from May 1958
	Annual rate in billion $		
Personal income[1]	376.2[a]	+ 0.8	+ 7.1
Manufacturing[1]			
Sales	366.0[a]	+ 0.7	+21.5
Inventories	51.5[a, b]	+ 0.8	+ 1.0
New construction activity[1]			
Private residential	22.4	+ 8.9	+31.4
Private nonresidential	15.5	+ 7.4	− 2.9
Total public	17.2	+14.4	+15.0
Foreign trade[1]			
Merchandise exports	17.6[c]	+ 0.8	− 4.0
Merchandise imports	14.7[c]	− 6.1	+15.5
Excess of exports	3.0[c]	+59.0	−47.8
Consumer credit outstanding[2]			
Total credit	45.8[b]	+ 1.9	+ 6.4
Instalment credit	35.0[b]	+ 1.7	+ 6.3
Business loans[2]	31.7[b]	+ 1.4	+ 6.3
Cash farm income[3]	n.a.		
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	152[a]	+ 1.3	+18.8
Durable manufactures	168[a]	+ 2.4	+25.4
Nondurable manufactures	143[a]	+ 0.7	+13.5
Minerals	126[a]	+ 2.4	+16.7
Manufacturing employment[4]			
Production workers	101	+ 1.1	+ 9.0
Factory worker earnings[4]			
Average hours worked	102	+ 0.5	+ 4.7
Average hourly earnings	168	0.0	+ 5.2
Average weekly earnings	170	+ 0.5	+10.1
Construction contracts awarded[5]	357	− 6.2	+ 4.1
Department store sales[2]	144[a]	+ 2.1	+ 7.5
Consumer price index[4]	124	+ 0.1	+ 0.3
Wholesale prices[4]			
All commodities	120	− 0.2	+ 0.3
Farm products	91	− 1.7	− 7.8
Foods	108	+ 0.5	− 4.6
Other	128	0.0	+ 2.4
Farm prices[3]			
Received by farmers	90	0.0	− 4.3
Paid by farmers	120	0.0	+ 1.7
Parity ratio	82[d]	0.0	− 5.7

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for April, 1959; comparisons relate to March, 1959, and April, 1958. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 June 27	1959 June 20	1959 June 13	1959 June 6	1959 May 30	1958 June 28
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,506	1,556	1,518	1,417	1,405	1,624
Electric power by utilities	mil. of kw-hr.	13,749	13,331	13,503	13,023	12,778	11,757
Motor vehicles (Wards)	number in thous.	156	157	155	153	143	109
Petroleum (daily avg.)	thous. bbl.	7,025	7,017	7,010	7,032	7,203	6,332
Steel	1947-49=100	144	152	151	154	154	97
Freight carloadings	thous. of cars	698	724	709	683	688	627
Department store sales	1947-49=100	118	143	141	150	122	110
Commodity prices, wholesale:							
All commodities	1947-49=100	119.6	119.4	119.4	119.4	119.5	119.2[a]
Other than farm products and foods	1947-49=100	127.9	127.9	127.9	127.8	127.8	125.3[a]
22 commodities	1947-49=100	87.6	88.2	88.1	88.1	88.2	86.1
Finance:							
Business loans	mil. of dol.	32,608	32,642	31,856	31,614	31,664	30,356
Failures, industrial and commercial	number	256	267	295	314	264	335

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for June, 1958.

RECENT ECONOMIC CHANGES

Plant and Equipment Programs

The latest survey by the Securities and Exchange Commission and the Department of Commerce indicates that businessmen have revised upward by about $800 million their planned expenditures on new plant and equipment in 1959. The new estimate of $32.6 billion is about 7 percent, or $2 billion, above actual capital outlays for 1958, but is still well below the record $37 billion of 1957.

The upward revision in anticipated spending for the year was reported despite the fact that the actual rate of investment in the first quarter of this year was about a half billion dollars less than the $31.2 billion estimated in the original survey three months ago. The latest report, however, indicates that plant and equipment outlays are expected to rise to a seasonally adjusted annual rate of $33.4 billion in the third quarter, with the increase extending through the final three months of the year. Second-quarter programs, at the rate of $32.3 billion, were relatively unchanged from the earlier survey.

Total manufacturing capital outlays for the year are estimated at about $12.4 billion, a gain of 8 percent, or $1 billion, over 1958 (see chart). With the exception of nonferrous metals, all durable goods manufacturers anticipated larger expenditures in 1959 compared with last year. Durable goods manufacturers' capital expenditures are expected to reach $6 billion this year, an increase of 10 percent over 1958. Nondurable goods industries have scheduled outlays of $6.4 billion, 7 percent higher than last year.

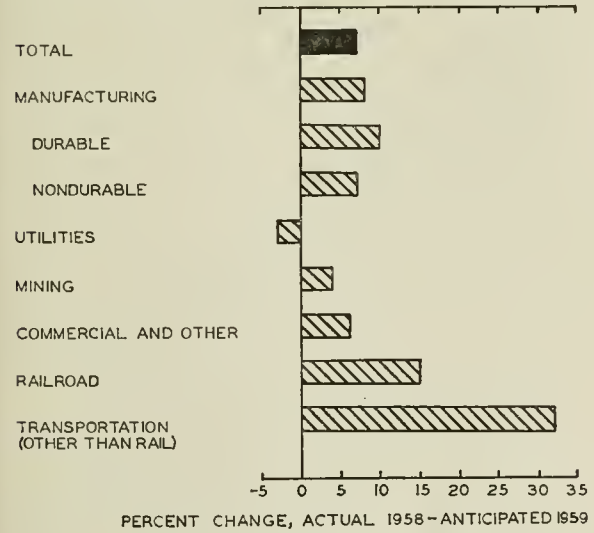
Farm Prices

The index of prices received by farmers fell in June to 242 percent of the 1910-14 average. This was 1 percent (3 points) below the preceding month and 3 percent below the mid-June, 1958, index of 250. Most of the decline resulted from a 16 percent drop in vegetable prices along with reductions of 3 percent in the prices of meat animals and food grains.

Lower prices for feeder livestock and livestock feed more than offset higher tractor and farm machinery prices, with the result that the index of prices paid by farmers for production goods fell to 267, about 1 percent less than a year earlier. Prices paid for family living items were unchanged at a record 288. The over-all index of prices paid by farmers fell to 298 in June, 1 point under the record high of April and May.

The parity ratio, which is the ratio between prices received and prices paid by farmers, fell from 82 in May to 81 last month, the lowest since June, 1957.

PLANT AND EQUIPMENT EXPENDITURES



Sources: Securities and Exchange Commission and U. S. Department of Commerce.

Nonfarm Housing Starts

The Labor Department reported that the annual rate of private nonfarm housing starts dropped in May to the lowest level of the year. The seasonally adjusted annual rate of private home starts was 1,340,000 in May, compared with 1,390,000 the month before. The May rate, however, was the highest for that month since 1955. The annual rate of private starts for the first five months of this year averaged 1,377,000 units, up 402,000 from the same period last year.

The agency's report on homebuilding activity showed that actual public and private starts in May fell contraseasonally to 134,000 from 137,000 in April. In 1958, total housing starts rose from 99,100 in April to 108,500 in May. For private homes only, the figures this year showed 130,600 starts in May, compared with 133,200 in the preceding month.

By the end of May, new private and public dwelling units totaled 572,500, about 35 percent greater than the 423,000 begun in the first five months of 1958. This year's private total of 558,000 represented a gain of 161,300 over the corresponding 1958 figure.

Automobile Production and Sales

Passenger car production totaled 558,015 last month, the highest June level since 1955. The latest figure represented a gain of 65 percent over industry output in the same month last year. In the first six months of this year, the industry turned out about 3.3 million cars, compared with 2.2 million in the first half of 1958.

Every company increased its output sharply this year, but shares of total production have shifted somewhat. Studebaker-Packard, American Motors, and Ford all made greater relative gains than did Chrysler and GM.

During June, dealers experienced their best month since September, 1955, as sales of new American-built cars rose to 580,500, an average of 22,330 per selling day. This was up 45 percent from June, 1958, and 5.5 percent above May, 1959, sales. June sales pushed the six-month total to over 2.9 million cars, up 33 percent from 1958 sales of 2.2 million.

Steel Production

Production of raw steel in May moved back up to the record 11.6 million tons established in March of this year. In April 11.3 million tons of steel were turned out. Thus, the recovery in the steel industry from last year's low levels continued strong through the first five months of the year as steel users continued to build up inventories in anticipation of a prolonged summer work stoppage. Through May, the steel companies produced about 53.4 million tons, compared with 29.7 million for the same period last year. The five-month figure for 1959 represented an average utilization of industry capacity of 87.4 percent.

During the three months March, April, and May, the

industry operated at over 98 percent of capacity, pushing the annual rate of production to new highs. May output was at an adjusted annual rate of about 137 million tons, matching that of April and well above the 74.6 million-ton rate of May 1958.

Employment

Employment rose to 67.3 million in June, bringing the total increase since February to 4.6 million, much more than the normal spring pick-up. Unemployment also rose in June, as some 2 million students and recent graduates entered the labor force.

Census data, in thousands of workers, are as follows:

	June 1959	*May 1959*	*June 1958*
Civilian labor force	71,324	69,405	70,418
Employment	67,342	66,016	64,981
Agricultural	7,231	6,408	6,900
Nonagricultural	60,111	59,608	58,081
Unemployment	3,982	3,389	5,437
Seasonally adjusted rate	4.9	4.9	6.8

Riding the Crest

(Continued from page 2)

Hill survey showed no significant advance. Review of the position of major industries suggests that they can expand or not, as they please. Unless the market increases further in the fall, there will be no reason for them to step up investment outlays. The recent high rates of production reached in the second quarter, if sustained through the next year, are only about enough to keep 1960 investment at the 1959 level. If the current rise carries into the first quarter of 1960, investment would be above the year's average to be expected on this basis. In other words, the implication of rates of industrial production continuing as high as the recent second-quarter peak would be a decline of investment within 1960 of about the same magnitude as the advance within 1959.

Residential construction has already begun to decline and there is almost universal agreement that the decline will continue in the months ahead. At a minimum, this decline is expected to more than offset the increase in business investment expenditures in the remainder of this year. Additional government aid to housing has been rejected. The decline in this segment, given tight money and somewhat adverse fundamentals in the housing market, could be precipitous. Homebuilding therefore becomes one of the key elements in the whole economic picture, and its strength or weakness must be closely watched as an indication of the future course of business.

In government, the budget-balancing philosophy has gained almost complete dominance. This is based on the one-sided view that the only danger to the economy lies in inflation. As a result, federal purchases of real goods and services have leveled off and are expected to continue relatively stable. Depending on military developments and open-end programs like farm price supports, the movement could go either way, but there is a distinct likelihood that the lull will be only temporary and a slow rise resumed. Nevertheless, net of the effects of price increases, the volume of federal purchases may be running less than a billion higher a year hence.

State and local governments have also accepted the thesis that anti-inflation measures are a good thing, so that very little contribution to prosperity can be expected from their programs. Purchases are apparently continuing to advance, though some slowing down is evident in the decline in construction contracts in the first half of 1959. Almost everywhere there is insistence that expenditures be financed by new taxes, and any kind of tax increase is considered worth enacting. These are largely taxes on consumption, and the net economic impact of expenditure programs financed by consumption taxes are mighty small, if they leave any net gain for the economy at all.

Consumer expenditures have advanced strongly in the first half of 1959. The main source of strength was the advance in personal income, with the increase in consumer credit helping to prevent a substantial rise in savings. Pressure on the durable goods industries, arising in large measure from the inventory boomlet, has pushed up working hours and average weekly earnings. With the steel industry down for inventory liquidation, strike or no strike, and the auto industry down for model changes, this pressure will soon be relieved; and with other segments of the economy stable or falling, the advance in personal income cannot be expected to continue at anything like the recent rate. There is no basis for expecting consumption to carry the rest of the economy upward under these circumstances. It will probably conform to the movements originating in other segments during the year ahead.

Shape of the Situation Ahead

The conclusion of this analysis is that the pattern of developments in the period ahead is likely to be shaped by the factors that are most unstable in the short run. On this basis, the odds favor not continued buoyancy in the economy but a definite shift away from the recent "trend." At best there will be a slowing down; at worst, irregularity eventuating after a while in a new decline.

The general stability of important segments suggests that pressure for near-term liquidation is not likely to become severe. The unfavorable short-term factors may be kept inoperative for a while.

The best situation for next fall and winter would probably develop from a prolonged steel strike. A steel strike would make for a weak third quarter but a stronger situation later in the year. The rebound from strike liquidation might be expected to bring production back up close to the recent highs by the year-end. However, in the absence of new international disturbances — like Suez and Hungary, which affected the 1956 situation — the rebound will probably not be so strong this year as it was in 1956. After the rebound, weakness is far more probable than any extension of the upward movement.

With sales volume stable or lower, corporate profits will be under pressure from rising charges. Only with the aid of higher prices are corporate profits in the fourth quarter likely to exceed the level of the second quarter. It may be inferred that any rebound from an intermediate dip will tend to reinstate optimism and the current loose thinking about inflation. Prices may be raised somewhat and gross national product in current dollars may then reach a new high in excess of the second-quarter rate of $479 billion. An interesting question is whether the price push will be able to compensate the effects of rising charges on corporate profits.

This is the silhouette of another temporary boomlet. Developments in 1960 do not seem likely to encourage the philosophy of the "golden sixties." Most of the current clichés about inflation, whether they concern commodity markets or financial markets, will also need something more tangible in the way of support. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Hydroelectric Power Resources

According to the Federal Power Commission's 1958 *Annual Report,* rivers and streams in the 48 states on January 1, 1958, represented — at optimum development — an estimated 118 million kilowatts of hydroelectric capacity. At that time, however, only 28 million kilowatts, or less than one-fourth, of total hydroelectric power resources were developed. It is estimated that of the approximately 90 million kilowatt potential of hydroelectric power available for future development, two regions, the Pacific States and the Mountain States, together account for about 61 percent of the total. The Middle Atlantic and South Atlantic regions have about 18 percent of the total.

On a state basis, undeveloped hydroelectric capacity ranges from an estimated high of 18.5 million kilowatts in Washington to negligible amounts in Delaware and Rhode Island. By the beginning of 1958, only eight states had at least half the estimated hydroelectric power potential developed. Undeveloped power in the remaining states ranged from slightly over 52 percent of total estimated potential in Connecticut and Massachusetts to 100 percent in Louisiana and Mississippi, two states in which hydroelectric resources had not yet been tapped.

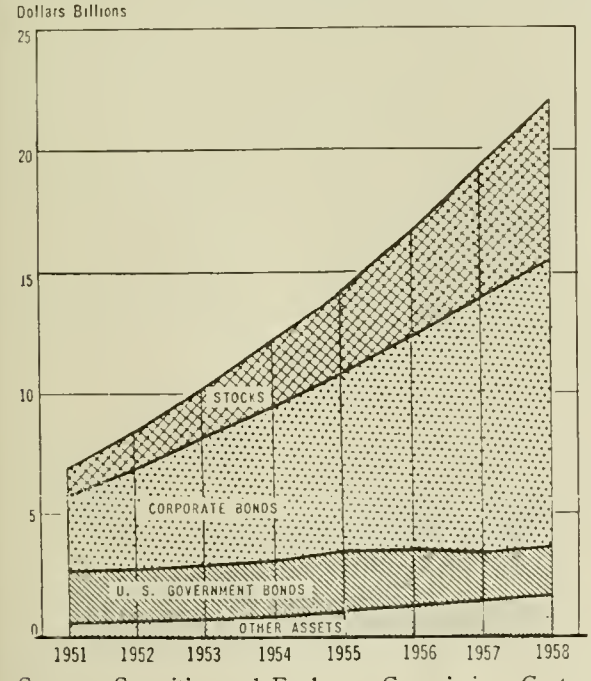
Agriculture as a Buyer

Although the number of persons living on farms has declined about one-third since the late thirties and the number of farms has decreased by about one-fourth, the farm market for producers' and consumers' goods and services has actually expanded as rapidly as the rest of the economy, according to the June, 1959, issue of *Business Record.* In 1958 farmers purchased about $40 billion worth of producers' and consumers' goods and services, compared with an annual average of $11.5 billion during the years 1937-41. This represents a gain of about 250 percent; however, when valued at 1958 prices, farmers bought about 50 percent more in 1958 than twenty years ago.

When expenditures were examined on a per farm basis, it was found that in 1958 about $8,500 was spent per farm for goods and services, or nearly five times the 1937-41 average. When adjusted for higher prices in the recent period, the real gain was greater than 100 percent.

It was reported that agriculture's consumption of petroleum in recent years has been almost 15 billion gallons annually, or about 10 percent of the total national consumption. Finished steel consumption has amounted to about 6.5 million tons annually, also about 10 percent of total consumption for the nation. The transportation industry has received about 16 percent of its gross freight revenue from agricultural commodity shipments.

INVESTMENT OF CORPORATE PENSION FUNDS
(End of year)



Source: Securities and Exchange Commission, *Corporate Pension Funds, 1958,* p. 1.

Protection from Blowouts

The American Latex Products Corporation, a Los Angeles subsidiary of Dayton Rubber Company, has found what it hopes to be the ultimate in blowout-proof tires. Instead of tires being filled with air, the tire casings are filled with "polyrubber," a flexible polyurethane material. The manufacturers state that the foam rubber filler can be bonded to the tire casing without pressure equipment; and in the case of a tire's being punctured, the polyrubber still retains its position in the tire.

A simple device called Tel-Air that flashes an immediate warning when a tire is low is the product of Eugene Demers of Kankakee, Illinois. This device consists of a warning mechanism which is connected to the hub of each wheel, with a signal connected to the dashboard that flashes red when the pressure in a tire goes below a pre-set level.

Growth in Corporate Pension Funds

According to an annual survey by the Securities and Exchange Commission, assets of pension funds of corporations in the United States amounted to $22 billion at the end of 1958. This represents a gain of $2.8 billion or 14 percent during the year, as compared with an increase of $2.7 billion in 1957.

As is shown by the accompanying chart, corporate securities accounted for the largest part of pension fund investment, $18.4 billion or 83 percent of all assets at the end of 1958. Of these corporate securities, $11.7 billion were in bonds and $6.7 billion in common and preferred stocks. Government bond holdings amounted to $2 billion or 9 percent of total investments, whereas mortgages and deposits each amounted to $400 million. Other assets totaled $900 million.

In recent years pension funds have constituted one of the most important sources of funds in the capital market. In 1958 net acquisitions of corporate bonds by pension funds absorbed an amount equivalent to almost one-fifth of the $7 billion of net new bonds added to the market supply during the year. It is estimated that corporate pension funds own more than one-eighth of the outstanding long-term bonds and notes of American corporations. Corporate pension funds last year acquired common and preferred stock equal to 30 percent of net new stock issues, more than any other institutional group.

THE CHANGING PATTERN OF SAVING

STANLEY W. STEINKAMP, Research Assistant Professor

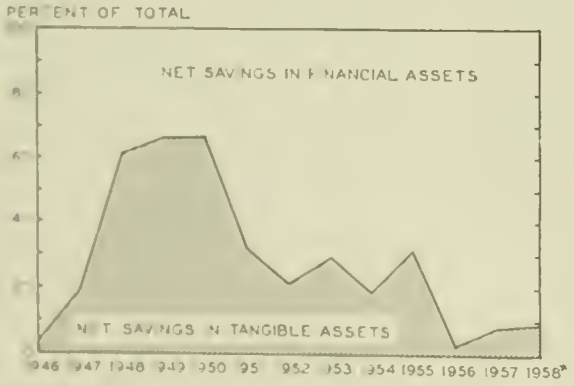
A continuing high level of aggregate demand depends on the return of personal savings by individuals to the income stream. The process of putting savings to work can be direct (savers purchase new houses or purchase additions to the assets of noncorporate businesses) or indirect (the savings are turned over to others and the savers merely hold claims in such financial assets as bank accounts, insurance policies, stocks, and bonds). Direct aggregate investment in new tangible assets is net of funds borrowed to acquire them and of depreciation. Only the down payment in the purchase of tangible assets is direct; the loans from financial institutions which make up the rest of the purchase price represent an indirect investment of savings. The distribution of savings between these two asset forms not only has implications for the speed with which savings find their way back into the income stream, but also for the price of financial assets, such as stocks and bonds, and for the structure of industry as well.

During the past ten years, the proportion of personal savings flowing directly into tangible assets has declined and the proportion placed in financial assets has risen (Chart 1). The annual total of personal savings rose by over $10 billion during this period. However, almost three-fourths of this increase was concentrated in the period from 1949 to 1951.

The decrease in the proportion of savings placed directly in tangible assets was concentrated in two periods — 1950-51 and 1955-56. The extent of decline in each period is brought out by a comparison of the average rate of saving in net tangible assets in preceding and succeeding periods. From 1948 to 1950, the average proportion of savings placed in net tangible assets was 65 percent; from 1951 to 1955 it was 26 percent; and since 1955 it has been 7 percent. Upon closer inspection, however, we note a fluctuating, gradual decline since 1951, which was interrupted in 1955 by the buying splurge which hit the country.

The 1950-51 decline is explained largely by the accumulation of tangible assets out of current income and liquid assets for five years, as accumulated wartime backlogs of demand were worked off. This tended to eliminate the imbalance between holdings of financial and tangible assets which had been created during World War II. Attainment of the desired balance was hastened by the outbreak of hostilities in Korea and probably occurred soon after, for at the termination of hostilities, the proportion of saving in net tangible assets rose only temporarily, and never approached its earlier heights.

CHART 1. PROPORTION OF PERSONAL SAVINGS IN TANGIBLE ASSETS



* Estimate
Source: U. S. Department of Commerce.

Recent Savings in Tangible Assets Drop

By 1956, the proportion of saving directed into net purchases of houses and net additions to noncorporate business enterprises stood at 4 percent. This level was even below that of 1946, a year of restricted output and of forced saving in financial assets. What were the immediate factors in this decline? One was a decrease of $2 billion in gross acquisitions of tangible assets from 1955 to 1956. The major component of this decrease was a drop in purchases of nonfarm housing, which was a major factor in all the fluctuations shown in Chart 1. At the same time, net savings in financial assets rose $500 million. Because purchases of automobiles and other durable goods are classified as consumption and are thus excluded from personal savings, the debt on these purchases, which is included as negative personal savings, has been subtracted from savings in financial assets. The drop in purchases of nonfarm housing and the rising net saving in financial assets would be, by themselves, sufficient to produce a decline; but when a third factor, that of rising mortgage and business debt, was added to them, it lent a final sharpness to the drop. Chart 2 shows a large increase in debt financing of tangible purchases between 1955 and 1956.

The fall in 1956 in the proportion of savings placed in tangible assets represents, on the surface, a radical shift in the composition of saving and also in underlying attitudes toward saving. However, expanding the picture to include a longer period of time brings into focus factors which indicate a different interpretation altogether. The small, fluctuating decline observable from 1951 to 1954 indicates the presence of underlying factors which have been gradually shifting the savings pattern. The year 1955 was one of exceptions, associated in part with the splurge in auto buying. Major tax cuts, excessively easy money policies by the Federal Reserve Board, and a great lengthening in the terms of credit all occurred. Even today there is no agreement about the forces which brought about that buying splurge and concentrated all of the advance in consumer credit in auto paper. The combination of these forces, whatever they were, temporarily reversed the longer-run decline, but when they dissipated, the proportional decrease in net tangible asset acquisitions accelerated and produced a more rapid drop. This, when combined with the saturation of the markets in 1955, may largely account for the abrupt decrease in the following year.

A comparison of the proportion of savings flowing into net tangible assets between 1954 and 1957 shows the former to be only 9 percent above the 1957 level. Disregarding the shorter-run fluctuations, we may then ask what is causing the longer-run decline.

The decreasing importance of noncorporate business enterprises in the over-all national output is one factor. In part, this reflects the liability, financing, and tax advantages of the corporate form of enterprise to a growing business. Business income is retained in the corporation, free of personal income taxes, and dividends may

be plowed back into it in the form of financial assets such as stocks and bonds. Out of the continuing emphasis on diversification by large firms and on the need by small businesses for funds for expansion has come the acquisition of noncorporate business by larger corporate enterprises. In addition, the corporate form of business offers the simplest way of combining several proprietorships or partnerships into a single diversified business. The trend also reflects the increasing popularity of stocks and bonds, in a period of potential inflation, among people who would not consider starting a small business of their own. The effect is that of a gradual shift away from the tangible assets of noncorporate business to the financial assets of corporations.

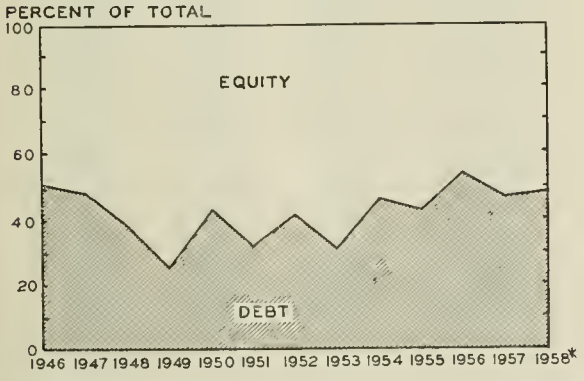
Effects of Population Changes

Another factor underlying the shifting pattern of saving is the changing age distribution of the population. Accompanying the joys of having children in the family circle are the expenses involved in raising them. As additional children are added, expenses increase, albeit at a decreasing rate. Unfortunately, most incomes do not rise as the number of children increases. Since most children under 19 are concentrated in families in which the head of the house is under 45 years of age, an increase in the number of children will tend to decrease the family's ability to save, particularly if the choice is between a decline in saving and a decline in the standard of living.

Current Population Reports published by the Census Bureau indicate that not only has the proportion of children to over-all population increased since 1950, but that the proportion of adults from 20 to 44 years of age has decreased (see table). This increase in the proportion of children and decrease in the proportion of parents is reflected in changes in the average number of children ever born to married women under 45 years of age. In 1952 the average number was 1.97 children, whereas in 1957 it was 2.34, an increase of 18.8 percent. Projections made by the Census Bureau indicate that this trend will continue through 1965. What changes in saving patterns occur as a result of the financial squeeze on these families?

Cross-section data obtained in the Surveys of Consumer Finances give hints as to the savings behavior of this group. The survey reports that in 1955, one-third of the houses sold were bought by families whose head was under 35 years of age, and that two-thirds were bought by families with a head under 45. Thus it appears

CHART 2. EQUITY IN TANGIBLE ASSETS ACQUIRED AS A PERCENT OF VALUE



* Estimate.
Source: U. S. Department of Commerce.

AGE DISTRIBUTION OF THE POPULATION, 1950-70

Age	*1950*	*1955*	*1960*	*1965*	*1970*
Under 20.....	33.9%	36.4%	38.7%	40.2%	40.4%
20 to 44.....	37.6	34.9	32.3	30.8	30.7
45 to 64.....	20.3	20.2	20.2	20.0	19.8
65 and over.....	8.2	8.5	8.8	9.0	9.1
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Current Population Reports.

that families who are large savers in tangible assets are the same ones that are faced with increasing family size. These families could have reacted by buying fewer houses, but the recent upswing in housing indicates that if this occurred, it was only temporary. An alternative to postponing house purchases is to acquire them with a smaller down payment. But as down payments decline, the direct saving of purchasers in housing also decreases, reducing direct savings in tangible assets. The easing of credit terms on housing in 1954, and again in 1958, probably explains the absence of a prolonged slump in house purchases. Mortgages, as a percentage of house value for all houses acquired, rose from 57 percent in 1953 to a high of 81 percent in 1955 and fell back to 67 percent in 1957. However, the percentage appears to be rising again in the present housing upturn.

A final factor which is difficult to assess is the growing bulge at the upper end of the age distribution. On the one hand, if younger people must support older people — either directly or indirectly, through social security, county taxes, or retirement programs — they will have less money left to invest in housing. On the other, the consumption of potential inheritances as older people live beyond retirement age influences the saving patterns of progeny who can no longer look forward to receiving an inheritance. Intra-family transfers from parents to married children enable the children to maintain a higher level of saving than without them. However, as the parents become more concerned with financing their old age, or cannot expect inheritances from *their* parents, it seems likely that they will cut down on the amount of gifts given to married children. As a result, the latter's ability to purchase homes is reduced.

Conclusions

The decline in the proportion of savings flowing directly into tangible assets since 1951 appears to be explained in part by two factors. The first is the declining importance of the noncorporate form of business enterprise in the output of the nation. The increasing popularity of stocks and bonds as hedges against inflation has tended to stimulate the flow of savings into the corporate form of business enterprise.

The second factor arises from the increasing proportion of the population at the upper and lower ends of the age distribution. The rising number of children per family increases expenses and thus reduces the potential saving of families whose head is under 45 years of age. It appears that the reduced rate of saving by this group has made for an increase in the proportion of saving done by families whose head is 45 to 64 years of age.

The latter group of families, who account for the bulk of saving in this country, have strong propensities for such intangible assets as savings accounts, stocks, and bonds. As these older families account for an increasing proportion of saving, the composition of savings tends to shift from tangible assets, such as houses, to intangibles. It appears that the forces which have produced this shift in the past will not disappear in the near future.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in May did not keep pace with that of the preceding month. With the exception of electric power, manufacturing employment, and consumer prices in Chicago, all indicators declined. Construction contracts awarded dropped 8 percent, while seasonally adjusted department store sales in Chicago and life insurance sales declined 5 percent and 4 percent respectively.

Year ago comparisons showed increases of 14 percent in electric power and 10 percent in life insurance sales. Personal income in April was 12 percent above that of the 1958 month, and weekly earnings were up 10 percent. Petroleum production dropped 12 percent and farm prices were 10 percent below the May, 1958, level.

Intercity Prices

The April, 1959, issue of *Business Record* presents some price differences and living costs for New York, Chicago, Boston, Los Angeles, and Houston. The comparisons of price differences and living costs for these cities are expressed in indexes and are based on a uniform market basket. The expenditures used to compute the indexes are those that represent the consumption patterns of moderate income families living in the cities.

The accompanying chart shows that prices in Chicago are higher than in any of the other four cities except for food. For all items, Chicago prices were 11 percent higher than those of the lowest-priced city. The component parts of the all-items index have varying degrees of dispersion between the cities. For instance, the spread of food prices was the narrowest of all major components with the highest price level being only 6.7 percent above the lowest. Nonfood components, however, displayed a much wider variability, especially in rent. Rent prices in Chicago in the third quarter of 1958 were 33 percent above those in Houston, 29 percent higher than those in New York, 21 percent more than those in Los Angeles, and 18 percent above those in Boston.

A New Civic Center

The Department of City Planning and the Real Estate Research Corporation have prepared a preliminary study for a new $61 million civic center in Chicago, which would be financed by revenue bonds issued by the Public Building Commission. The study proposes a five-year improvement program which includes construction of two 21-story buildings, a civil courts building, a city office building, and a three-level civic plaza.

The proposed civil courts building is to contain 600,800 net square feet of floor area which would provide space for 115 modern courtrooms — 114 for Cook County courts, 30 for City of Chicago courts, and one for an appellate court. This compares with the 49 county, 22 city, and one appellate courtrooms now in existence. The city office building as planned contains 279,450 net square feet of floor area. Also, the study outlines a 50,000 square-foot landscaped civic plaza, above and below street level.

Ground-Water Resources

In the *Summary: Preliminary Report on Ground-Water Resources of the Chicago Region, Illinois* issued by the State Water Survey and State Geological Survey, the history, present conditions, and effects of possible future development of ground-water resources of the Chicago region are discussed. The region described in the report includes Cook, DuPage, Kane, Kendall, Lake, and McHenry counties, and parts of Grundy and Will counties.

Pumpage of ground water in the region has generally increased through the years, though pumpage in the Chicago metropolitan area is somewhat less than it was in 1924 just before many of the industries of the area abandoned their wells in favor of water supplies from Lake Michigan. Between 1948 and 1957 ground-water pumpage by municipalities in the region rose 70 percent.

Total ground-water pumpage from all sources in the region in 1957 amounted to 128 million gallons per day. Of this total 62 percent was pumped for public supplies, nearly 28 percent for industrial supplies, and 10 percent for rural, non-irrigation supplies.

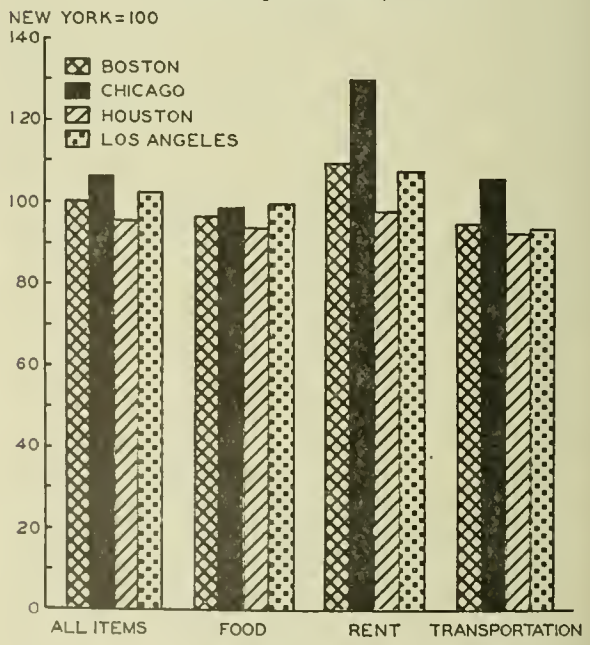
Wages and Salaries in Chicago

The United States Department of Labor recently released preliminary estimates of the wages and salaries of Chicago workers based upon information obtained during the April, 1959, survey. This survey covered 438 firms employing approximately 482,000 workers. Construction and extractive industries, railroads, and government operations were excluded from the survey.

The findings show that women's office salaries rose about 3 percent between April, 1958, and April, 1959, while hourly rates of both skilled maintenance workers and unskilled plant workers increased about 4.5 percent. A comparison of the findings of the recent survey with one conducted in March, 1953, showed that office workers' salaries were up about 30 percent as compared with rate increases averaging about 33.5 percent for skilled maintenance workers and 30.5 percent for unskilled plant workers.

Among 23 office occupations studied, weekly salaries of women workers ranged from an average of $57.50 for routine file clerks to $89.50 for secretaries. Hourly rates of pay for men in skilled maintenance trades averaged $2.74 or more. The average rates for tool and die makers, electricians, machinists, pipefitters, carpenters, painters, and sheetmetal workers were all over $3.00 per hour.

INTERCITY PRICE INDEXES BASED ON A UNIFORM MARKET BASKET, THIRD QUARTER, 1958



Source: National Industrial Conference Board, *Business Record*, April, 1959, p. 177.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1959

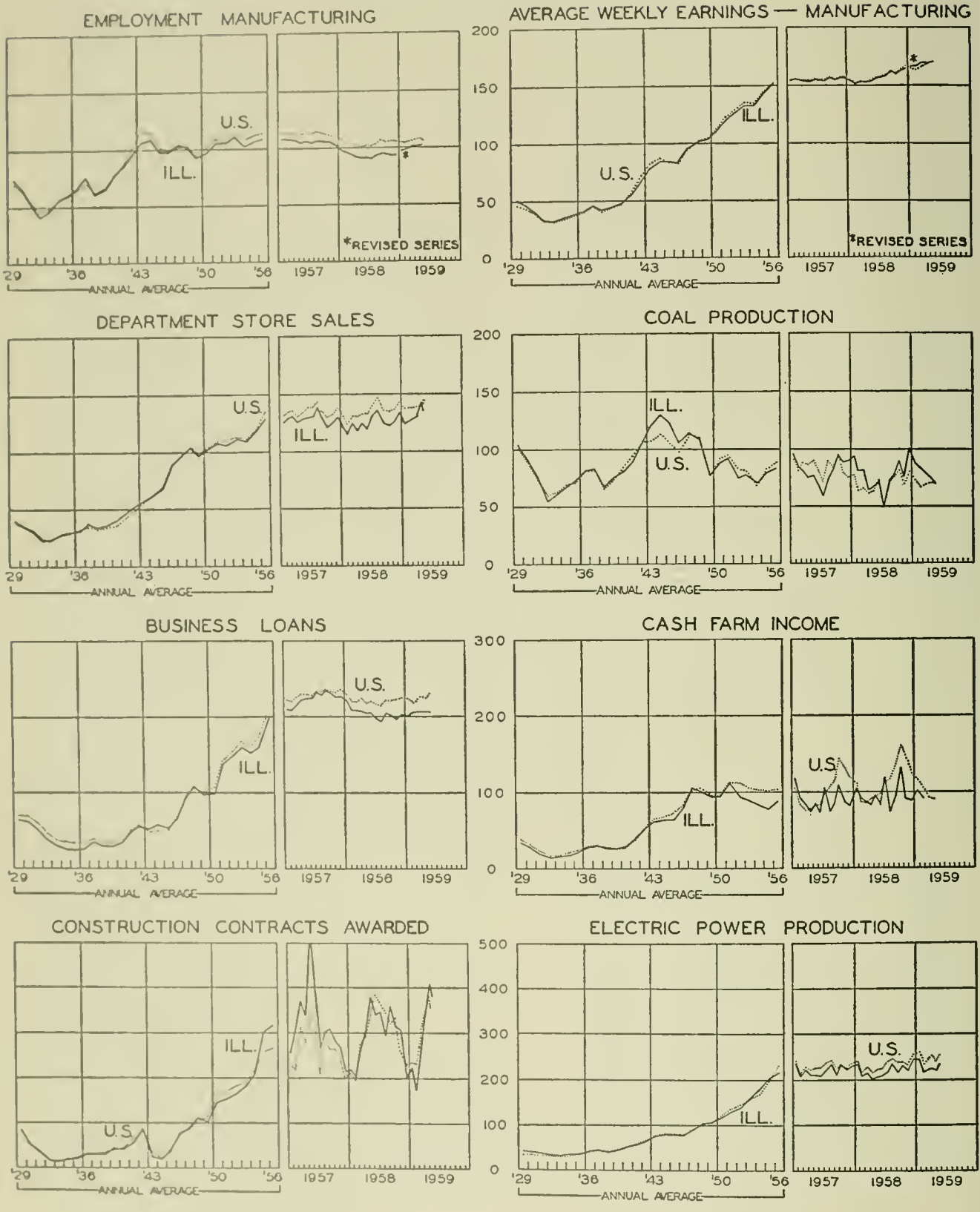
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$38,787[a]	1,179,645[a]	$568,022[a]		$17,298[a]	$14,745[a]
Percentage change from Apr., 1959	+1.7	−1.9	−1.0	+10	−2.3	−14.5
Percentage change from May, 1958	+39.0	+15.7	−1.7	+4	+14.7	+22.4
NORTHERN ILLINOIS						
Chicago	$28,972	866,258	$413,722		$15,836	$12,669
Percentage change from Apr., 1959	+13.8	−0.7	−2.8	+12	−2.5	−15.9
Percentage change from May, 1958	+75.0	+12.9	−6.2	+4	+15.1	+20.9
Aurora	$ 809	n.a.	$ 9,170		$ 75	$ 152
Percentage change from Apr., 1959	+12.7		+1.9	+13	+2.3	−12.2
Percentage change from May, 1958	+36.2		+9.8	+15	+9.3	+31.8
Elgin	$ 442	n.a.	$ 6,081		$ 48	$ 116
Percentage change from Apr., 1959	−5.6		+2.5	n.a.	+3.2	+4.4
Percentage change from May, 1958	−23.8		+1.5		+7.0	+29.4
Joliet	$1,140	n.a.	$13,583		$ 87	$ 91
Percentage change from Apr., 1959	+2.0		+30.3	+14	+2.5	−22.1
Percentage change from May, 1958	+99.3		+38.6	+9	+9.2	+27.4
Kankakee	$ 248	n.a.	$ 4,914		n.a.	$ 50
Percentage change from Apr., 1959	+92.2		−1.0	n.a.		−25.3
Percentage change from May, 1958	+75.9		+1.7			+39.1
Rock Island-Moline	$1,091	26,472	$11,918		$ 117[b]	$ 160
Percentage change from Apr., 1959	−31.6	+1.7	+11.7	n.a.	+5.4	−8.8
Percentage change from May, 1958	−29.0	+21.4	+15.1		+6.6	+29.0
Rockford	$1,224	48,874[c]	$18,694		$ 192	$ 236
Percentage change from Apr., 1959	−39.6	+0.9	+5.4	+5[c]	+1.8	−8.2
Percentage change from May, 1958	−55.8	+17.3	+12.5	−2[c]	+11.6	+32.2
CENTRAL ILLINOIS						
Bloomington	$ 473	8,328	$ 5,305		$ 76	$ 104
Percentage change from Apr., 1959	−5.4	−1.9	+1.5	n.a.	+7.8	+1.8
Percentage change from May, 1958	+82.6	+8.1	+12.8		+13.6	+30.4
Champaign-Urbana	$ 444	13,478	$ 8,209		$ 74	$ 120
Percentage change from Apr., 1959	−38.0	+2.2	+2.5	n.a.	−8.1	−3.1
Percentage change from May, 1958	−29.3	+17.4	+16.2		−0.7	+28.0
Danville	$ 294	13,649	$ 6,207		$ 49	$ 70
Percentage change from Apr., 1959	+14.8	−0.9	+4.4	+2	−4.6	+1.6
Percentage change from May, 1958	−83.2	+18.3	+18.0	+7	+4.7	+20.4
Decatur	$ 739	35,107	$11,331		$ 119	$ 126
Percentage change from Apr., 1959	+4.5	−1.2	+1.0	+13[c]	−1.2	+5.3
Percentage change from May, 1958	+75.1	+12.4	+12.1	+12[c]	+5.5	+24.2
Galesburg	$ 192	8,756	$ 4,626		n.a.	$ 45
Percentage change from Apr., 1959	+76.1	−15.1	−0.8	n.a.		+5.8
Percentage change from May, 1958	−9.9	+6.2	+4.5			+19.3
Peoria	$ 185	56,953[c]	$18,106		$ 238	$ 276
Percentage change from Apr., 1959	−81.3	−26.5	+1.2	+8[c]	−3.0	−4.8
Percentage change from May, 1958	−61.0	+26.6	+16.1	+18[c]	+15.6	+31.7
Quincy	$ 860	12,243	$ 5,105		$ 52	$ 73
Percentage change from Apr., 1959	−51.8	+6.7	+1.9	0	+8.4	+8.5
Percentage change from May, 1958	+430.9	+41.5	+11.4	0	+14.7	+40.1
Springfield	$1,224	37,886[c]	$13,241		$ 138	$ 303
Percentage change from Apr., 1959	+34.4	+11.4	+2.2	+12[c]	+2.0	−1.7
Percentage change from May, 1958	+95.5	+17.6	+13.7	+8[c]	+17.7	+49.5
SOUTHERN ILLINOIS						
East St. Louis	$ 169	14,872	$ 8,588		$ 149	$ 73
Percentage change from Apr., 1959	−4.0	−1.0	−3.9	n.a.	−2.5	+0.4
Percentage change from May, 1958	−45.0	+30.1	+2.5		+3.5	+39.5
Alton	$ 105	27,150	$ 4,940		$ 47	$ 35
Percentage change from Apr., 1959	−58.3	+1.3	+1.4	n.a.	+0.4	−4.5
Percentage change from May, 1958	−51.4	+119.4	+10.9		+9.3	+30.9
Belleville	$ 176	9,619	$ 4,280		n.a.	$ 43
Percentage change from Apr., 1959	−25.7	−2.0	−5.6	n.a.		−8.0
Percentage change from May, 1958	+74.3	+11.0	+2.9			+16.5

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for April, 1959. Comparisons relate to March, 1959, and April, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending May 29, 1959, and May 30, 1958.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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HIGHLIGHTS OF BUSINESS IN AUGUST

General business activity has maintained a high level in the past two months despite the steel strike. Effects of the strike are evident in the index of industrial production, which fell by 2 points in July and another 4 points in August from the record level of 155 (1947-49 = 100) reached in June. Other unstable elements in the business picture are evident in the recent high rates of business inventory accumulation and consumer credit expansion.

Personal income increased slightly in July to $384.1 billion, then dropped $2.5 billion in August. Retail sales also held close to the June figure in both July and August. Employment rose 250,000 in the July week before the strike to a record 67.6 million and was at 67.2 million in mid-August; the seasonally adjusted rate of unemployment edged upward from 4.9 percent in June to 5.1 percent in July and 5.5 percent in August.

Autos Doing Well

With shutdowns for model changes cutting production in August to 239,000 passenger cars, dealers' stocks of new cars were reduced to about 725,000 units by the end of the month, a drop of some 240,000 during the month. Spurred by factory contests, retailers sold about 485,000 new American-built cars during August. This was 7 percent more than they sold in July and 50 percent more than in August, 1958; it represented the best August sales since 1955.

Inventories in the hands of dealers, which amounted to about 40 days' supply at the end of the month, will continue to fall in September with production still curtailed by model changeovers. Stocks will probably rise again thereafter as a result of high production schedules for the fourth quarter, unless the steel strike extends beyond mid-October.

Inventories Rise, Sales Fall

After a rise of $1.0 billion in June, total manufacturing and trade inventories picked up $500 million in July to bring the book value of stocks at the end of the latter month to $89.8 billion on a seasonally adjusted basis. Most of the gain in July occurred in wholesale and retail trade, each of which were up about $200 million, bringing stocks of the former to $12.5 billion and of the latter to $25.0 billion. An increase of $100 million in the book value of inventories held by producers of durable goods raised total stocks of manufacturers to $52.2 billion. In June these went up $500 million.

Sales in manufacturing and trade fell off $300 million in July to $61.7 billion, after a June increase of half a billion. Nearly all the decline in July was in shipments by manufacturers of durables. Total factory sales amounted to $30.8 billion in the month. Sales by wholesalers dropped slightly in July to $12.5 billion, but retail sales rose $100 million to a record $18.3 billion on a seasonally adjusted basis.

Construction Eases

An increase of less than $100 million in the value of new construction put in place during August produced record outlays of $5.3 billion, 13 percent more than in the 1958 month. However, the rise was less than seasonal, mainly because private residential building, which normally increases in August, fell slightly. At $2.1 billion, it was still 22 percent above August a year ago. Private contruction as a whole amounted to $3.6 billion, about the same as in July and 16 percent above the year-earlier month. Outlays for industrial buildings expanded 5 percent to $175 million. Public expenditures for new construction totaled $1.7 billion, up 6 percent from July and 13 percent from August, 1958.

In the first eight months of 1959 some $35.7 billion has been spent on new construction, 15 percent more than in the corresponding 1958 period. Private outlays have accounted for $24.8 billion and public expenditures for $10.8 billion, reflecting increases of 16 and 14 percent respectively over the first eight months of 1958. Residential building made up $14.4 billion of the private total, 31 percent more than in the corresponding 1958 months.

Consumer Debt Up

Consumers have been adding to their short- and intermediate-term debt at a rapid pace in recent months. At the end of July, instalment debt outstanding totaled $36.4 billion after a seasonally adjusted increase of $452 million in June and $500 million in July. Total consumer debt amounted to $47.3 billion on July 31; the annual rate of increase in June and July averaged $6.8 billion.

Automobile paper accounted for about 45 percent of the adjusted increase in instalment debt in both months. Purchasers of cars paid off $1.3 billion in old debt in July but took on more than $1.5 billion in new obligations. Other consumer goods paper and personal loans each contributed about one-fourth to the total in both June and July, with repair and modernization loans accounting for the remainder.

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ILLINOIS BUSINESS REVIEW

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Dilemma of Higher Education

There is an anomaly in the impending shortage of college teachers. The nation prides itself on leadership — in quality of education, in scientific and technical achievement, and in opportunities for creative thinking. At the same time, it ignores the growing inadequacy of means to provide the specialized training necessary for maintaining past rates of progress.

The problem is not simply one for the future. Facilities are already overcrowded, and colleges find it increasingly difficult to secure qualified teachers. The physical problem is far from insoluble; the economy is well-equipped to provide the outward adjuncts of an educational institution, such as classrooms, dormitories, and stadiums. The personnel problem is more serious; means are not available for building the teaching staff needed to make physical facilities operative.

The Shortage Will Grow

The teacher shortage will grow over the next decade with the increase in student enrollment. This is not a matter of doubt. Even if the baby boom should collapse immediately, the prospect remains unchanged. For the children now living will make the number of students at least twice as great by 1970. More parents than ever before are psychologically and financially prepared to enter their children in college. Close to a third of those in the relevant age group are now enrolled. This proportion may approach half of the greatly enlarged number who will be in the same age group in 1970.

There is hardly any prospect of a corresponding increase in the number of adequately trained teachers. Already more classes are being turned over to teachers with lower qualifications. Retired professors are also being recalled to active duty, and although many of these have the interest and capacity to resume work, their number is, of course, severely limited.

An obvious conclusion is that more of our current crop of college students should be recruited for teacher training. At the point of graduation, however, careers of further study for future teaching positions have less drawing power than other alternatives. Business concerns have been sending their recruiters to the campus with attractive offers. Salaries are as a rule not only much higher than those of the beginning teacher but are paid throughout the period of further training. Since business, too, wants the most capable employees, the best students are bid away from the colleges. Assisting in this process is the trend toward earlier marriages. The student with family responsibilities cannot accept sacrifices that might be justified for him by his drive for learning.

The difficulty here, moreover, is not just a question of money. Value standards may be highly materialistic, but there is besides a social premium on participation in business. The young executive is the prototype of success that becomes the goal for our youth. In contrast, intellectual achievement has somehow fallen into disfavor. Many congressmen have aggravated this aspect of the problem by assuming that orthodox thought is the only kind tenable, an assumption leading them into attacks upon the nonconformism of the intellectual. Other government officials have been content to drift with the tide.

Is There a Remedy?

Assistance from outside sources has not been without effects on academic salaries. The Ford Foundation and other nonprofit institutions have been active in publicizing the seriousness of the problem and in allocating millions of dollars to private colleges for increasing the compensation of teachers. In addition, the scarcity of teachers has been exerting pressure on salary scales. This is evident, for example, in the higher salaries being paid in teaching fields such as medicine, engineering, and economics, where outside demand exerts competitive pressure. Increases, however, have to be appraised in comparative rather than in absolute terms; even the widespread upward adjustments of recent years have done little if anything more than keep salaries from falling still further behind competitive business scales.

Professor Seymour Harris of Harvard has found that "In a generation, the college professor has lost 50 percent in economic status as compared to the average American." His real income (in 1930 dollars) declined 15 percent from 1930 to 1957, while the over-all average increased 75 percent. If his salary is doubled in the next ten years, he will just get up to the present average; but by that time others will have realized new gains, keeping his status relatively inferior, though probably not, under the pressure of a growing shortage, so much so as at present.

No one can see a remedy for the shortage, but various methods of dealing with it are being considered. Some proposals will undoubtedly bring real economies in staff time. Others may result only in increased teaching loads. Colleges that adopt the latter expedient are likely to find it self-defeating, for overburdened staff will move out, making the manpower situation more critical.

Another approach is to limit student enrollment. Private colleges generally have more freedom in this respect than public institutions. The latter tend to be pushed into a kind of provincialism, by excluding out-of-state or other nonresident students.

More junior colleges will be set up by communities wishing to create better opportunities for their youth. There is a danger in this if the development is not well planned and coordinated. The new colleges may find it harder than the established institutions to secure staff. Their efforts may even aggravate the problem by making for less efficient utilization of available teachers. They can always be manned some way, of course, even if it involves undue sacrifice of quality. A secondary danger is that such a development would tend to lower standards in the upper grades at the large state universities into

(Continued on page 8)

OUR MOST VALUABLE MINERAL

Probably no other mineral is so important to modern society as petroleum. It plays a key role in all phases of our complex economy and is vital to national defense. Although its chief use is as a fuel and lubricant, crude oil is manufactured into more than 2,350 products.

The modern petroleum industry is exactly 100 years old. In August, 1859, Colonel E. A. Drake's well at Titusville, Pennsylvania, began flowing, setting off a stampede for oil. More than 2,000 barrels were drawn out in 1859, and by 1860 production had risen to more than 500,000 barrels. In the first 71 years following Drake's "strike" (to 1930), 13 billion barrels of domestic oil were brought to the surface. In the past three decades, production has been increasing at a greater rate as the uses and consumption of petroleum have multiplied. By 1958, more than 60 billion barrels had been produced.

United States — 100-Year Leader

Throughout the past 100 years, the United States has remained the world's leading crude oil producer. In 1957, it pumped 2.7 billion barrels, or nearly two-fifths of the world total.

The output of domestic crude oil was valued at roughly $8 billion dollars in 1957. There were approximately 564,000 wells active and 59,000 wells drilled during 1957. The Department of Labor reported that about 254,000 production workers and 93,000 other employees were connected with oil-drilling operations during the same year.

In recent years the industry here has been producing a smaller share of world output as the Middle East pools have vaulted into world prominence. For example, the United States share dwindled from 67 percent in 1943 to 41 percent in 1957, whereas that of the Middle East rose from 23 percent to 33 percent. Furthermore, this nation holds only 14 percent of the world's proved crude reserves, whereas 70 percent are in the Middle East.

The production stage of the oil industry is not as concentrated as refining, which requires large investment. Nevertheless, about two-thirds of the nation's crude oil is produced by a relatively few large companies, and the remainder by an estimated 16,000 to 18,000 small, independent oil firms. Most major companies usually contract out a share of their drilling of new wells, especially exploratory wells. Other small drillers operate on their own, frequently "wildcatting" in new areas and selling out to majors upon completion of a successful well.

In order to maintain reserves, the industry has been facing a trend toward deeper drilling. The average depth stretched from 3,300 feet in 1946 to more than 4,000 feet in 1957. Moreover, dry wells have become more frequent; the percentage of such wells increased from 35 percent in 1946 to more than 40 percent in 1957. Oil producers have steadily stepped up their search for pools. The number of drillings jumped from 15,000 in 1932 to 59,000 in 1957. This intensified search, of course, has pushed costs higher. However, better techniques, such as seismographing (recording shock waves from explosions), gas pressuring, water flooding, and hydraulic fracturing (injecting a mixture of oil and sand into the oil strata at high pressure), have made the business less of a hit-or-miss proposition and have improved secondary recovery.

The Industry in Illinois

The first "pay" well in Illinois was brought in about 1886 near Litchfield. But the state's first "oil boom" began in 1905, with the discovery of oil in Clark County near Westfield, which opened up what was later called the Southeastern oil field. The surging flow from this field pushed Illinois into third place by 1910; but by 1936 the State had declined to fourteenth after the field's reserves dropped and production in other states increased.

Several large pools were found in 1937 west of the older Southeastern field, lying within what sometimes is called the Illinois oil basin. The basin today encompasses nearly 8,000 square miles, and most of the state's active wells are within its boundaries.

Today, Illinois ranks eighth nationally and is the largest oil-producing state lying wholly east of the Mississippi. In fact, it accounted for more than 40 percent of the total crude oil produced east of the Mississippi in 1958. In over-all volume, however, output was modest compared with that of the giant oil states — Texas, California, and Louisiana — which had a combined output in 1957 nearly 33 times that of Illinois. About 81 million barrels valued at $245 million were produced last year in Illinois. This was considerably less, however, than the all-time peak of 148 million barrels in 1940.

Although some production takes place in more than half of the state's 102 counties, seven counties accounted for 60 percent of total output in 1957. They were Fayette, White, Marion, Wayne, Lawrence, Clay, and Clinton, in order of production.

There are eleven major oil fields in the Illinois basin, each producing more than a million barrels annually. The largest, the Louden field in Fayette County, produced more than 11 million barrels in 1957. Altogether, the area of the state's proved production, including abandoned pools, extends over 565,000 acres. In all, nearly 33,000 wells operate in Illinois today, of which about 23,000 have come into production since 1936.

The Illinois State Geological Survey estimated that on January 1, 1958, reserves which can be reached by existing wells in Illinois totaled 667 million barrels. This means that at the 1958 production rate (80 million barrels) the state's proved reserves will be exhausted within less than a decade. Of course, this is unlikely because an average of 25 to 35 new pools are discovered in the State each year. Also, in recent years, producers have been able to recover more than the former 20 to 30 percent from each oil reservoir.

Crude oil will continue to be a vital product in the national economy. It is unlikely, at least in the near future, that a satisfactory substitute can be developed. Hydrogenation of coal, shale, and tar sands may someday become a source of liquid energy, but, like atomic energy, it will not be a practical source for some time. Therefore, the nation's crude oil supply will hinge on the discovery of new fields and increased recovery from present pools.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1959, to July, 1959

*Not Charted

ILLINOIS BUSINESS INDEXES

Item	July 1959 (1947-49 =100)	Percentage change from June 1959	Percentage change from July 1958
Electric power[1]	238.1	− 1.4	+ 9.5
Coal production[2]	56.1	−26.4	+14.2
Employment—manufacturing[3]	102.2[a]	− 1.4	+ 7.7
Weekly earnings—manufacturing[3]	172.6[a, b]	+ 0.6	+10.5
Dept. store sales in Chicago[4]	129.0[c]	+ 5.7	+ 4.0
Consumer prices in Chicago[5]	128.3	+ 0.5	+ 0.5
Construction contracts awarded[6]	432.7	+10.6	+24.7
Bank debits[7]	219.0	+ 5.2	+20.3
Farm prices[8]	79.0	− 3.7	−12.2
Life insurance sales (ordinary)[9]	305.4	− 4.3	+ 1.0
Petroleum production[10]	123.8	+ 5.6	− 4.6

[1] Ed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for June, 1959; comparisons relate to May, 1959, and June, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	July 1959	Percentage change from June 1959	Percentage change from July 1958
	Annual rate in billion $		
Personal income[1]	384.1[a]	+ 0.1	+ 6.7
Manufacturing[1]			
Sales	369.6[a]	− 1.2	+17.1
Inventories	52.2[a, b]	+ 0.2	+ 4.8
New construction activity[1]			
Private residential	25.3	+ 2.4	+27.7
Private nonresidential	17.8	+ 3.6	+ 5.5
Total public	18.7	+ 2.0	+ 6.1
Foreign trade[1]			
Merchandise exports	17.1[c]	− 8.1	+ 0.7
Merchandise imports	16.4[c]	+ 8.4	+32.8
Excess of exports	0.7[c]	−80.5	−85.3
Consumer credit outstanding[2]			
Total credit	47.3[b]	+ 1.2	+ 9.8
Instalment credit	36.4[b]	+ 1.8	+10.0
Business loans[2]	29.5[b]	− 9.6	− 0.2
Cash farm income[3]	n.a.		
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	153[a]	− 1.3	+14.2
Durable manufactures	169[a]	− 1.7	+19.9
Nondurable manufactures	146[a]	+ 0.7	+10.6
Minerals	119[a]	− 4.8	+ 2.6
Manufacturing employment[4]			
Production workers	102	+ 0.4	+ 9.8
Factory worker earnings[4]			
Average hours worked	101	− 0.7	+ 3.1
Average hourly earnings	168	− 0.4	+ 4.7
Average weekly earnings	170	− 1.2	+ 7.9
Construction contracts awarded[5]	369	− 0.1	+ 1.4
Department store sales[2]	149[a]	+ 3.5	+ 6.4
Consumer price index[4]	125	+ 0.3	+ 0.8
Wholesale prices[4]			
All commodities	120	− 0.2	+ 0.3
Farm products	88	− 1.6	− 6.9
Foods	108	− 0.6	− 4.6
Other	128	+ 0.2	+ 2.2
Farm prices[3]			
Received by farmers	89	0.0	— 3.3
Paid by farmers	119	0.0	+ 1.7
Parity ratio	81[d]	0.0	− 4.7

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp. [a] Seasonally adjusted. [b] As of end of month. [c] Data are for June, 1959; comparisons relate to May, 1959, and June, 1958. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 Aug. 29	1959 Aug. 22	1959 Aug. 15	1959 Aug. 8	1959 Aug. 1	1958 Aug. 30
Production							
Bituminous coal (daily avg.)	thous. of short tons	1,209	1,192	1,204	1,134	1,198	1,375
Electric power by utilities	mil. of kw-hr	14,100	14,003	13,648	13,675	13,775	12,272
Motor vehicles (Wards)	number in thous.	34	47	84	119	143	26
Petroleum (daily avg.)	thous. bbl.	6,821	6,817	6,823	6,789	6,808	6,863
Steel	1947-49 = 100	19	19	19	18	20	100
Freight carloadings	thous. of cars	549	543	544	532	544	645
Department store sales	1947-49 = 100	138	132	132	131	121	149
Commodity prices, wholesale							
All commodities	1947-49 = 100	119.3	119.3	119.2	119.2	119.2	119.1[a]
Other than farm products and foods	1947-49 = 100	128.3	128.3	128.4	128.2	128.2	126.1[a]
22 commodities	1947-49 = 100	87.0	86.5	86.3	86.8	86.2	86.2
Finance							
Business loans	mil. of dol.	29,008	28,910	28,759	28,688	28,585	n.a.
Failures, industrial and commercial	number	257	263	269	274	252	246

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for August, 1958. n.a. Not available.

RECENT ECONOMIC CHANGES

Foreign Investments

The flow of United States private capital to foreign countries began to slacken last year, falling to $2.8 billion after reaching a peak of $3.2 billion in 1957. However, appreciation of foreign security shares and retention of some earnings combined with the capital outflow to raise the value of private holdings abroad by slightly more than $4 billion to a total of $40.8 billion at the end of 1958.

New direct investments by United States companies in their foreign branches and subsidiaries fell sharply in 1958 to $1.8 billion from $3.1 billion in 1957 (see chart). Last year's addition to direct investment, composed of $750 million in retained earnings and more than $1 billion in net capital outflows, raised the book value of direct foreign investments to $27.1 billion.

Most of the decline in direct investments resulted from severe cuts in new petroleum investments which fell to $690 million from $1.7 billion in 1957. Capital outflow and retained earnings by this industry were down in most areas, but the contraction was most drastic in Latin America where petroleum investments skidded from over $900 million in 1957 to only $145 million in 1958. New investments in manufacturing also declined last year, falling to $587 million from $746 million in 1957.

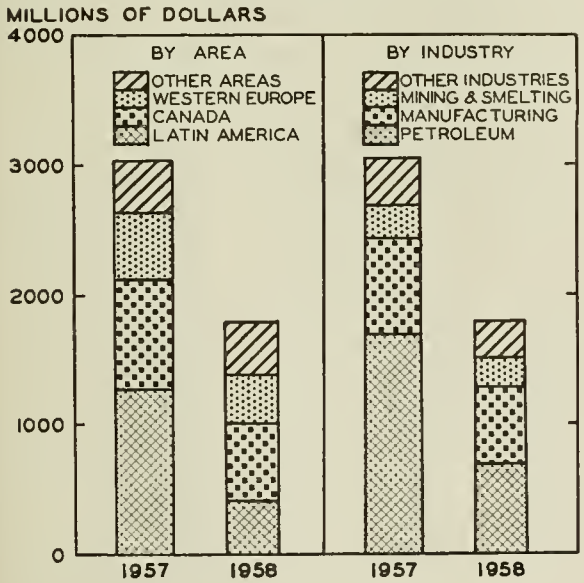
In the first six months of 1959 private capital outflow continued to decline, lagging about 30 percent behind last year's first-half pace of $1.7 billion. Direct investments were slightly above the comparable 1958 rate, but United States purchases of foreign bonds and extensions of bank loans diminished as interest rates in the United States continued to rise in the first half of this year.

Gross National Product

The gross national product reached a seasonally adjusted annual rate of $484.5 billion in the second quarter. This figure was $14.3 billion above the previous period and marked the fifth consecutive quarterly advance since last year's recession low. These advances have pushed the value of the nation's output of goods and services $53.5 billion above the first quarter 1958 rate and $36.5 billion, or 8 percent, above the previous peak reached in mid-1957.

During the second quarter both consumption and investment demand continued to rise sharply. Personal consumption expenditures, accounting for more than half of the increase in GNP, moved up $7.3 billion to a rate of $311.2 billion. Investment outlays rose $6.7 billion, bringing gross private domestic investment up to a rate of $77.5 billion at midyear, including $23.1 billion for residential construction. Nonfarm business inventories continued to be built up and were accumulated at the rate of $9.8 billion during the second quarter. At the recession low point in 1958, inventories were being depleted at an annual rate of $8.1 billion.

ADDITIONS TO UNITED STATES DIRECT FOREIGN INVESTMENTS



Source: U. S. Department of Commerce.

Business Capital Outlays

The latest quarterly survey made jointly by the Commerce Department and the Securities and Exchange Commission indicates that businessmen have revised their capital expenditure plans upward to $33.3 billion for this year. This is some $700 million more than they estimated in the previous survey three months ago. If these plans are fully realized, spending on new plant and equipment in 1959 will be about 9 percent above last year's outlays of $30.5 billion, but still well below the record $37 billion spent in 1957.

The report also shows that actual second-quarter outlays, at $32.5 billion, were about $200 million greater than had been planned. For the third quarter the adjusted annual rate of anticipated spending was increased to $34.3 billion, while programs for the final three months of the year indicated a $35.3 billion rate.

Industrial Production

The Federal Reserve Board's index of industrial production fell 2 points during July to a seasonally adjusted 153 percent of the 1947-49 average. According to the FRB the drop was entirely attributable to effects of the steel strike. Except for the primary metals, which fell to 113 from 150 in the previous month, almost all durable goods industries increased output during July, and activity in the nondurable goods sector rose to a new peak.

During July steel mills operated at an average of about 44 percent of capacity as against 90 percent in June. However, the work stoppage reduced operations well below this average after the middle of July, to about 12 percent of capacity.

Production of finished durable goods, on the other hand, continued to expand in July. Output of consumer durable goods reached a new high of 147 percent of the base period figure as auto and television production was further increased.

Advertising Expenditures

Total advertising expenditures showed their first decline in sixteen years in 1958 when spending on national and local advertising slipped slightly below the $10.3 billion recorded in 1957. The National Industrial Conference Board reported the annual rate of growth in advertising, which had averaged 11 percent between 1946 and 1957, began to slacken in 1957 as the recession approached.

Among the major media, farm publications suffered

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PRIVATE AFFLUENCE AND PUBLIC POVERTY

HORACE M. GRAY, Professor of Economics

It has become common usage to describe the American economy as a mixed, or private-public, system, in which certain economic functions are performed by private enterprise and others by government. It is recognized that the two sectors of the national economy are mutually interdependent and complementary; that neither can operate successfully without adequate support from the other; that deficiencies in either sector retard progress in the other; and that to maximize general welfare the two must be functionally balanced. Numerous critics have analyzed this relationship, and almost without exception, they report a serious imbalance, or disparity, between the seeming affluence of the private economy and the relative poverty of the public economy. Why and how has this situation developed?

The Present Imbalance

For eighteen years, 1942-59, the public economy (excluding military) has been inadequately supported relative to increasing social needs, productive capability, or growth in the private economy. This was unavoidable during the war but not thereafter. In the fourteen postwar years, 1946-59, we produced an aggregate gross national product (GNP) of more than $4,700 billion. This was distributed roughly as follows: to the private sector almost $3,800 billion, or 80 percent of the total, of which some $3,100 billion went for personal consumption and nearly $700 billion for private investment; to the public sector about $920 billion, of which state and local governments accounted for some $350 billion and the federal government for some $570 billion. Of the federal portion, however, some $485 billion, or 85 percent, was devoted to national security and related activities, while only about $85 billion was spent for civilian functions. In the special area of capital formation, state and local governments invested some $90 billion, whereas the federal government accounted for only $29 billion, or less than 25 percent of the total nonmilitary public investment.

These aggregates indicate some of the causes for the present imbalance. The federal government, notwithstanding its comprehensive powers and financial resources, has played a minor role, both as supplier of public capital and supporter of basic social services. The resources at its disposal have been devoted overwhelmingly to national security. State and local governments, despite the severe fiscal limitations under which they operate, have been the mainstay of the public economy, providing 80 percent of its support (exclusive of transfer payments). As a people we have spent nearly eight times as much on personal consumption as on civilian public functions and nearly six times as much on private as on public investment. We have spent substantially more for national security and related activities than for the public economy.

If we look beyond these quantitative aggregates to the ultimate issue of efficient resource allocation, we find an even more distressing situation. In the private sector, a considerable portion of personal consumption is unnecessary, frivolous, wasteful, and even harmful; in part, private investment is subsidized, duplicative, excessive, or speculative; resources are wasted or misallocated through subsidies, inventory accumulation, monopoly pricing, and inflation of capital values; and credit inflation has resulted in the transfer and misallocation of resources on a vast scale. In the public sector, there has been enormous waste in military procurement and construction, stockpiling, foreign aid, and subsidization of business and agriculture; and tax immunities and loopholes have rendered billions of dollars of private income immune from the allocative power of the federal government. The resources thus wasted and misallocated might, under more prudent management, have been directed into the undernourished public economy, thus redressing the balance.

This prolonged neglect of the public economy has resulted in accumulated deficiencies of alarming proportions: in education, scientific research, highways, local utilities, airports, low-cost housing, urban redevelopment, depressed areas, development of natural resources, energy supply, stream and air pollution, health and medical care, crime and juvenile delinquency, institutional care for dependent and aged persons, and other vital social services. In addition, the rapid growth of population, increasing industrialization and urbanization, revolutionary changes in technology, the increasing drain on natural resources, and the rising expectations of the American people combine to magnify the shortage. Thus, the problem is a twofold one: first, to eliminate accumulated deficiencies; second, to expand the public economy to meet the future needs of more than 200 million people.

Estimates of these requirements vary according to what is included in the public economy, how complete a solution is sought, and how rapid a remedy is contemplated. On any reasonably comprehensive calculation, however, a staggering outlay is indicated. Alvin H. Hansen, a distinguished authority in this area, estimates that we need to devote one-fourth of the GNP, or about $125 billion a year, to the public economy. Contrast Hansen's 25 percent of GNP with the approximately 9 percent over-all performance during the past fourteen years, or his $125 billion a year with the fourteen-year average of about $31 billion a year for all civilian functions. For public capital investment alone the present author has estimated, in another connection, that we need to invest about $40 billion a year for the next 25 years. This may be contrasted with the average nonmilitary public investment of slightly over $9 billion a year during the past fourteen years. It may also be contrasted with the average of nearly $50 billion for private investment, or the peak of $65 billion attained by private investment in 1956.

Preconceptions That Impede Action

Blocking the realization of such estimates are certain preconceptions, or traditional ideas, which have paralyzed the national will, specifically: (1) Private spending always yields greater utility than public spending. (2) Private activity is always efficient, public activity always inefficient. (3) It is possible to get "something for nothing" by inflation or some other legerdemain, thereby escaping the hard choice of allocating scarce resources to alternative ends. (4) Diversion of resources from the private to the public economy will undermine and eventually destroy private enterprise. (5) Subsidized private business can serve the general welfare better than direct public action. (6) State and local governments can do all that is needful in the public economy. (7) The principal function of the federal government is to promote private business. (8) The federal government is not directly responsible for the public economy. (9) The public economy

is a parasitic, nonproductive organism which feeds upon and saps the vitality of the private economy. (10) Strengthening the public economy will destroy individual liberty and eventuate in socialistic regimentation.

These bits of "conventional wisdom," as J. K. Galbraith designates them, are neither correct, tenable, nor relevant in the modern economy but, sanctioned by tradition, they are powerful deterrents to rational use of federal power over the allocation of resources. Actually, their effect is to shift resources to the private, and away from the public, economy, regardless of social needs or existing imbalances.

This inherent bias of the "conventional wisdom" is exemplified by federal fiscal policy. On the revenue side, the income tax has been so riddled with exemptions, deductions, immunities, and loopholes that its effectiveness as a fiscal instrument has been seriously impaired. It fails to reach billions of dollars of private income, particularly in the upper-income and corporate categories, a considerable portion of which should be taxed into the Treasury and from there shifted to public employment. On the expenditure side, federal spending has in large measure degenerated into an organized system of subsidization through which powerful private interest groups drain off the public revenue into their own pockets. Thus, revenues are diverted from the public economy and transformed into private incomes. These two groups — the beneficiaries of tax immunity and the recipients of subsidies — have become a powerful vested interest in our society; the capitalized value of the income accruing from these two sources amounts to billions of dollars. It goes without saying that they are adamant against fiscal reform.

Justifications for Federal Inaction

Captive of these preconceptions and interests, the government has resorted to various subterfuges to justify its sacrifice of the public economy. Among these the following are conspicuous: (1) denial of federal responsibility; (2) military necessity; (3) prevention of inflation; and (4) induced "growth" in the private economy.

Some deny that the federal government is directly responsible for the public economy. Such activities, it is said, are the proper concern and responsibility of private enterprise or of state and local governments; the only legitimate function of the federal government is to supply technical assistance and coordination, and in special situations, limited financial subvention. Pursuant to this philosophy, efforts have been made to transfer public functions to private enterprise, to transfer federal functions to state and local governments, to subsidize private enterprise for performing public functions, to force local governments into disadvantageous "partnership" arrangements with private concerns, to curtail federal grants-in-aid, and to limit federal loans.

Over the entire period, military necessity has been the principal excuse for failure to support the public economy. Granting the reality of the military danger and the priority of national defense, this necessity did not require such ruthless sacrifice of the public economy. First, total national security expenditures during this period amounted to only slightly more than 10 percent of GNP — certainly not a decisive proportion. Second, no sustained effort has been made to enforce rigorous economy in military procurement and related activities; the waste, duplication, monopoly pricing, excessive profits, and subsidization have been enormous. Third, no serious effort has been made to restrain excesses in private investment and personal consumption; in fact, they have been stimulated by unsound fiscal and monetary policies. Fourth, instead of closing tax loopholes, and thereby greatly increasing federal revenue, additional loopholes have been authorized. Had vigorous action been taken on these fronts, the military burden could have been carried without deterioration of the public economy and without inflation.

More recently, prevention of inflation has served as a blanket justification for curtailment of the public economy. Granting that inflation may be a great social evil and that it should be prevented, it does not follow that restriction of the public economy is the only, or even an effective, way to prevent it. This prescription is not specific to the malady; the source of inflation lies in bad fiscal and monetary policies and in uncontrolled excesses within the private economy. A government which declines to attack these disorders cannot successfully conceal its failures by a false show of "economy" in the public sector.

A more subtle rationalization now enjoys a certain vogue in sophisticated circles. The federal government, it is said, should promote over-all economic "growth" at some predetermined rate, say 5 percent a year. This "growth," it is assumed, will automatically carry the public economy along and keep it in proper functional balance with the expanding private economy. If the federal government assures a rapid rate of growth by policies calculated to encourage and stimulate private enterprise, it need give no special attention to the public economy, since all problems within this area will be solved by the cure-all of "growth." The fallacy in this argument consists of ignoring relevant institutional factors. Economic growth proceeds through and is controlled by prevailing institutions; if these are biased toward the private economy, as is now the case, then they will channel "growth" into the private, and away from the public, sector, thereby exaggerating further the present imbalance. This can be avoided only by reforms designed to allocate a larger portion of total resources to the public economy.

These four rationalizations are techniques of escapism and negation, which conceal a basic malaise in our society. The American people, in their unrestrained pursuit of private wealth and material satisfactions, have forgotten the public interest. The federal government, instead of holding the people to their duty, has weakly succumbed to the popular mood and used its powers for the service of private interests while foolishly neglecting the public interest. The present disparity between private affluence and public poverty is, in the last analysis, a product of our value system. It is not likely to be corrected until the people rediscover the public interest, recognize the necessity of private sacrifices for the public good, and insist that the federal government take positive action to bolster the impoverished public economy.

Means to Restore the Balance

This diversion can be effected quite simply by the use of existing federal powers which our undue concern for private interests has precluded us from applying. First, we could increase federal revenue substantially by closing the scandalous loopholes through which billions of dollars of private income escape taxation. Second, we could reduce expenditures by drastic economies in military procurement and related activities, in foreign aid and stockpiling, and by the elimination of subsidies to business and agriculture. Third, we could impose restraints

private investment, personal consumption, speculation, and credit expansion, thereby conserving billions of dollars of resources which otherwise would be wasted or put to low value private uses.

Very modest achievements in these directions would release large quantities of resources for public employment and would do so without any untoward effects on the private economy. In fact, the selective private sacrifices involved would be exceeded many fold by the general benefits accruing from avoidance of inflation, more efficient use of resources, strengthening of competition, and expanded public services. This diversion can be achieved largely through intelligent use of fiscal and monetary policies and with only minimum direct controls over the private economy. If prudently managed, it would not result in unemployment; redundant workers in specialized private areas could be shifted to the public sector. In the long run, the over-all strengthening of the economy would create many new employment opportunities.

The improvement of the public economy is not a partisan political issue. Both major political parties have recognized the need and pledged themselves to action. Despite this professed intent, both parties have failed to make significant headway against the mounting deficiencies, both are badly split on the practical question of ways and means; both are confronted by the same formidable obstacles: opposition of private interest groups, public apathy, resistance to taxation, hostility to federal action, and priority of private over public interests. These attitudes are deeply rooted in our value system and thus far no political party or leader has been able to prevail against them. A solution will become possible only when people generally are prepared to subordinate their less vital personal interests to the greater public good. There is some evidence that such a shift of values is slowly developing. It is reasonable, therefore, to assume that the compelling necessities of the public economy will eventually lead to constructive action.

Dilemma of Higher Education

(Continued from page 2)

which the junior college graduates are channeled; any university tends somewhat to adapt its work and standards to the needs and capabilities of its student body.

Other proposed remedies would employ devices like TV as substitutes for the teacher's direct participation. Various experiments now being conducted show some promise for this approach. But the loss of the personal touch is widely feared. The student develops his critical faculties best in a direct interchange of ideas, questioning and debating until each point of analysis is established and each issue resolved. Can the image on the TV screen inspire students to their best efforts, as most scholars have in the past been inspired by their teachers? This ultimate test of the quality of teaching still remains to be established in any mechanical substitute.

The dilemma of higher education is apparent in this brief review. The colleges face a problem that is at least partially insoluble because of the long lag in recruiting and training teachers. We properly insist on freedom of choice in the individual's selection of his occupation, but we seem unable to create the conditions that will lead him to choose a role in maintaining an essential service. It would help over the longer run if a more favorable climate could be developed with the support of national leadership. VLB

Recent Economic Changes

(Continued from page 5)

the greatest relative decline in advertising, about 6 percent, while newspapers, magazines, and business papers each declined 5 percent. Outdoor advertising fell off 3 percent during the year and radio 1 percent. However, gains of 5 percent in TV and 6 percent in direct mailing advertising offset most of the other decreases.

In the first five months of 1959 the advertising industry showed signs of recovery from the previous year's dip in volume. In April the *Printers' Ink* national advertising index reached a new peak of 230 (1947-49 = 100), 4 percent above the previous high of December, 1957. All media have shown significant increases since their recession lows with network radio making the greatest gains. In May the over-all index slipped somewhat but at 226 was still above the 1957 high.

Since 1946, advertising has been absorbing an increasing share of the national product. From 1946 to 1958, while personal consumption expenditures, retail sales, and GNP roughly doubled, advertising expenditures tripled.

Personal Income by States

Personal income reached record dollar volumes in nearly every state in 1958 despite the business decline which prevailed in the early part of the year. Only four states — Michigan, Ohio, Indiana, and West Virginia — experienced declines during the period.

For the continental United States personal income rose about 2 percent in 1958, compared with a 5 percent increase in 1957. Most states showed increases close to the national average. The largest advance, 17 percent, occurred in North Dakota. Other states in which income rose 10 percent or more were New Mexico and Kansas.

On a per capita basis, personal income last year averaged $2,057 for the country as a whole, compared with $2,043 in 1957. However, price increases more than offset this small rise, and real per capita income in 1958 was a little less than in the preceding year. In six states — Connecticut, Delaware, New York, Nevada, California, New Jersey — and the District of Columbia, incomes averaged more than $2,500 per person.

Employment

Secondary effects of the steel strike and layoffs in the auto industry due to early model changeovers offset nearly half of the expected seasonal decline in unemployment last month. The Labor Department reported that, ordinarily, unemployment would be expected to fall by about 568,000 in August as young people leave the labor force to return to school. However, the number of jobless declined only 300,000 during the month to 3.4 million. As a result, the seasonally adjusted rate of unemployment rose from 5.1 percent in July to 5.5 percent in August.

Total employment also declined during the month, dropping by 350,000. However, at 67.2 million, the number employed was still a record for August.

Labor Department data, in thousands of workers, are as follows:

	Aug. 1959	*July 1959*	*Aug. 1958*
Civilian labor force	70,667	71,338	70,067
Employment	67,241	67,594	65,367
Agricultural	6,357	6,825	6,621
Nonagricultural	60,884	60,769	58,746
Unemployment	3,426	3,744	4,699
Seasonally adjusted rate	5.5	5.1	7.6

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Consumer Spending

In 1958 consumers in the United States spent nearly $293 billion for goods and services compared with $285 billion in 1957, according to the United States Department of Commerce. This represents an increase of $8 billion, of which expenditures for services accounted for nearly two-thirds. From 1950 the increase in the consumption of goods and services amounted to nearly $100 billion or more than 50 percent; however, almost half of this has to be attributed to price changes during the eight years.

The proportion consumers spent for services rose to 39 percent in 1958, compared with 38 percent in 1957 and 33 percent in 1950. At the same time, expenditures for durable commodities dropped to 13 percent of total consumption expenditures from 14 percent in 1957 and 16 percent in 1950.

Outlays in 1958 for private education and research, housing, and medical care increased 9 percent, 8 percent, and 7 percent respectively over the 1957 levels, whereas expenditures for transportation recorded the only decline among the twelve major categories, with a drop of 8 percent. In comparison with 1950, the greatest changes have been in foreign travel, which increased 143 percent, and in personal business expenditures, which rose 107 percent.

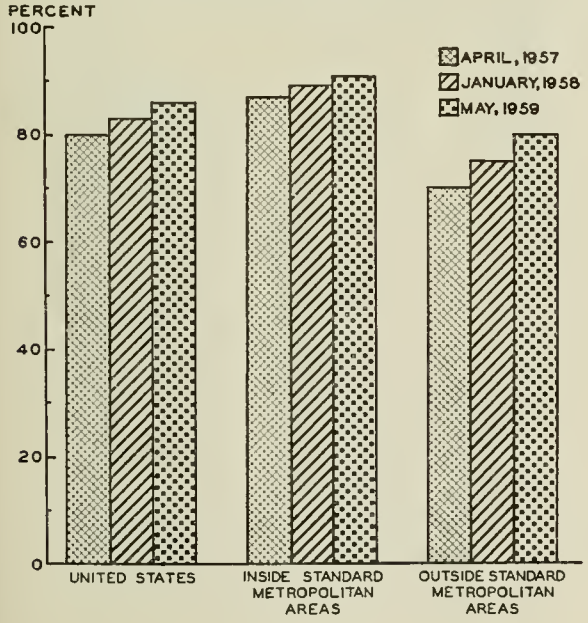
Credit Card Health Insurance

Business Week reported recently that the doctors of California's San Joaquin Valley have instituted a credit card health insurance plan which is made available to residents of four valley counties — Fresno, Kings, Madera, and Merced. Policies are underwritten by Pacific National Life Assurance Company, which sells them through its agents and through independent brokers in the four counties. Policyholders use Bank of America credit cards to pay for this insurance. They are billed monthly by the bank for premiums, and the bank assumes full responsibility for collection.

Under this plan, all medical and surgical charges during hospital confinement are paid by the insurance company, with the doctors receiving the fees specified in full payment for their services. Another feature of the plan is that in or out of the hospital, all diagnostic, laboratory, and X-ray charges are paid up to $150.

Premiums are scaled according to age and range from $4 a month for a single male under 40 years of age to $24.90 a month for a person 60 to 64 years of age with two or more dependents. In order for a person to qualify for the policy, it is necessary for him to answer favorably to routine medical history questions and to have a Bank of America credit card.

PERCENT OF HOUSEHOLDS WITH TELEVISION SETS, 1957, 1958, AND 1959



Source: U. S. Department of Commerce.

Industrial Growth

Data released in the 1957 *Annual Survey of Manufactures* show that value added by manufacture nearly doubled between 1947 and 1957. Higher prices accounted for about a fourth of the 95 percent gain over this decade.

The Mountain States, with an average increase of 169 percent, lead all other regions in this measure of industrial growth. The Pacific and West South Central regions were close behind, with average gains of 166 percent and 152 percent respectively. Even though the South Atlantic, East North Central, Middle Atlantic, and New England states registered advances below the national average, these four regions still accounted for nearly 75 percent of all value added in 1957.

The largest relative increases in value added between 1947 and 1957 were made by Nevada with an increase of 436 percent and New Mexico with 419 percent. Nevertheless, the greatest absolute gains continued to be in the industrial states. California showed the largest advance, from $4.0 billion to $11.6 billion, followed by New York ($9.7 billion to $16.1 billion), Ohio ($6.3 billion to $12.4 billion), Pennsylvania ($7.0 billion to $12.6 billion), and Illinois ($6.7 billion to $12.2 billion).

Households with Television Sets

According to the results of a sample survey conducted by the Bureau of the Census, the percentage of the nation's households with television sets continued to increase during 1958 and the early part of 1959. The survey, which was conducted in May, 1959, showed that 86 percent of all households had one or more television sets compared with 83 percent in January, 1958, and 80 percent in April, 1957.

As would be expected, the proportion of households with television sets was greater inside standard metropolitan areas than in other areas. The percentage in the former increased from 87 in April, 1957, to 91 in May, 1959, while in the latter it rose from 70 to 80. However, the number of TV households outside standard metropolitan areas has increased 14 percent since April, 1957, while inside these areas such households rose only 5 percent (see chart).

By geographic region the Northeast, with 92 percent, continued to show the highest proportion of households with at least one set. The North Central region and the West were next with 88 percent and 86 percent respectively. The South continued to have the lowest proportion of TV households, 79 percent.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in July advanced generally from the preceding month. The only major indicator with a substantial decline was coal production, which dropped 25 percent. The greatest increase was experienced in construction contracts awarded, which was up 11 percent from the June level.

Comparisons with July, 1958, show increased activity in all indicators, with the exception of farm prices and petroleum production. Construction contracts rose 25 percent, bank debits advanced 20 percent, and coal production increased 14 percent.

Illinois Birth and Death Rates

The Illinois Department of Public Health reported recently that the number of live births among the residents of the State was higher in 1957 than in any preceding year. During 1957 nearly 239,000 babies were born, establishing a new high birth rate of 24.5 live births per 1,000 population. The previous high live birth rate was 24.2 per 1,000 population, which occurred in both 1917 and 1956.

There were approximately 102,000 deaths from all causes among Illinois residents in 1957, a death rate of 10.5 per 1,000 population, as compared with the postwar low of 10.0 in 1954. The excess of births over deaths yielded a natural population increase of about 136,000, compared with natural increases of 125,000 in 1955 and 97,000 in 1950.

The vital index, which is a ratio of births to deaths, has increased from 152 live births per 100 deaths in 1945 to 233 in 1957.

Year	*Birth rate per 1,000 population*	*Death rate per 1,000 population*	*Vital index*
1957	24.5	10.5	233
1955	23.6	10.2	231
1950	21.7	10.5	207
1945	17.7	11.6	152

Commuting Patterns of Workers

The Illinois State Employment Service has released the findings of its February, 1959, survey of workers' commuting patterns in seven downstate Illinois counties. The results of the survey revealed that of those nonagricultural wage and salary workers having jobs in Peoria County, 81 percent live in Peoria County, whereas 14 percent reside in Tazewell County and 1 percent in Fulton County. On the other hand, 43 percent of the jobs in Tazewell County are filled by residents of that county, 42 percent by residents of Peoria County, and 1 percent by residents of Fulton County.

In the metropolitan areas of Springfield and Decatur, the survey indicated an absence of labor market integration between Sangamon and Macon counties, less than 1 percent of the total persons working in either county residing in the other. It was also found that of all workers living in Macoupin County, only slightly more than 11 percent work in Sangamon County. However, 9 percent of the workers residing in Christian County commute to jobs in Sangamon County and about 16 percent hold jobs in Macon County.

Food Purchasing Power of Workers

The food purchasing power of production workers in Chicago and nineteen other major cities in the United States is presented in the July-August, 1959, issue of *Management Record*. Food purchasing power is measured by dividing the average hourly wage into the price of food items. From this, one can obtain the number of minutes of labor required to make the purchase.

Chicago's production workers averaged $2.46 an hour in December, 1958, ranking eighth among the twenty cities. This was 12 percent more than the national average and 3 percent more than the twenty-city average. Workers in Detroit and Pittsburgh had the highest earnings with $2.80 and $2.72 an hour respectively.

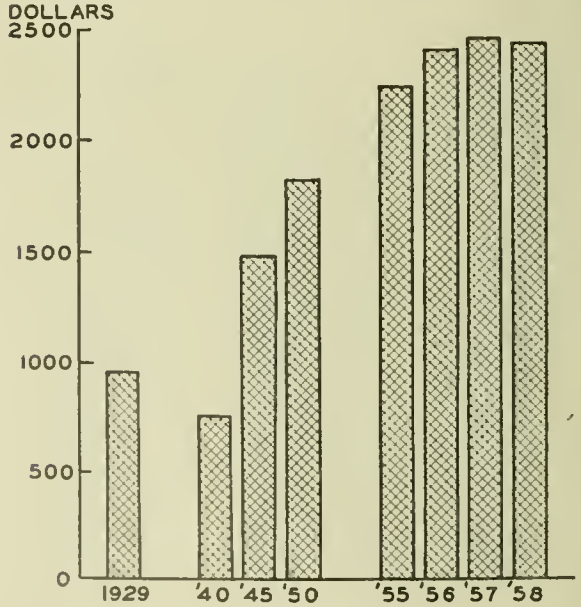
Primarily because of high hourly earnings in Detroit and Pittsburgh, production workers in these two cities were generally in the most favorable positions in terms of work-time required to buy food items. The workers of Chicago had to labor 22 minutes in order to purchase a pound of round steak, 6 minutes to buy a quart of milk, 14 minutes to get a dozen eggs, and 21 minutes to obtain a pound of coffee. Workers in Detroit needed to work on the average about one minute less in each case.

Personal Income

According to the August, 1959, issue of the *Survey of Current Business,* Illinois personal income established a new high of $24.1 billion in 1958. This is a gain of about 1 percent over 1957, 15 percent over 1955, and 51 percent over 1950. Of the 1958 total personal income, $23.2 billion was from nonfarm sources, of which the two largest contributors were manufacturing ($6.1 billion) and trade ($3.1 billion). Thus, farm income accounted for slightly less than 4 percent of the state's personal income.

Retaining its third-place rank in total personal income among the states, Illinois was preceded by New York and California. However, on the basis of per capita income Illinois ranked eighth among the states, having an average of $2,435 during 1958. This was about 1 percent below the record high of $2,460 set in the previous year; however, it was 8 percent above 1955's average of $2,249 and 33 percent greater than the state's per capita income of $1,827 in 1950 (see chart). Always ranging well above the national average, per capita income in Illinois continued to exceed it by about 18 percent last year.

ILLINOIS PERSONAL INCOME PER CAPITA



Source: U. S. Department of Commerce.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1959

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$35,917[a]	1,219,098[a]			$19,147[a]	$13,662[a]
Percentage change from June, 1959	−16.0	−2.0		−17	+5.2	−8.0
Percentage change from July, 1958	+19.8	+14.9		+3	+20.3	+24.8
NORTHERN ILLINOIS						
Chicago	$22,735	890,038			$17,557	$11,824
Percentage change from June, 1959	−19.2	−3.0		−17	+5.8	−7.8
Percentage change from July, 1958	+1.7	+12.2		+3	+21.0	+25.3
Aurora	$1,715	n.a.			$ 84	$ 127
Percentage change from June, 1959	+90.3			−22	+2.4	−18.1
Percentage change from July, 1958	+85.2			−1	+27.1	+20.9
Elgin	$ 881	n.a.			$ 55	$ 82
Percentage change from June, 1959	+23.9			n.a.	+7.7	−18.4
Percentage change from July, 1958	+447.2				+15.5	+32.6
Joliet	$1,352	n.a.			$ 98	$ 97
Percentage change from June, 1959	+67.3			−15	+1.5	−10.7
Percentage change from July, 1958	+119.1			+7	+21.9	+24.7
Kankakee	$ 217	n.a.			n.a.	$ 49
Percentage change from June, 1959	−42.9			n.a.		−10.4
Percentage change from July, 1958	−0.5					+15.3
Rock Island-Moline	$ 899	27,717			$ 124[b]	$ 156
Percentage change from June, 1959	−42.2	+5.3		n.a.	−7.3	+4.2
Percentage change from July, 1958	−35.8	+16.7			+9.6	+21.8
Rockford	$1,348	47,163[c]			$ 211	$ 195
Percentage change from June, 1959	−29.4	+0.3		+15[c]	−2.1	−11.3
Percentage change from July, 1958	+40.1	+16.5		+4[c]	+18.3	+31.4
CENTRAL ILLINOIS						
Bloomington	$ 927	9,031			$ 83	$ 89
Percentage change from June, 1959	+118.6	+3.6		n.a.	+3.8	−8.9
Percentage change from July, 1958	+238.3	+10.5			+11.8	+20.7
Champaign-Urbana	$ 442	14,786			$ 88	$ 107
Percentage change from June, 1959	−57.6	+7.6		n.a.	−1.1	+2.0
Percentage change from July, 1958	+21.1	+16.6			+19.0	+31.0
Danville	$ 250	13,774			$ 58	$ 53
Percentage change from June, 1959	+1,566.7	+1.6		−12	+11.8	−31.1
Percentage change from July, 1958	+54.3	+14.3		+4	+14.8	+15.2
Decatur	$ 740	37,032			$ 132	$ 113
Percentage change from June, 1959	−68.1	+1.8		−17[c]	−0.8	−8.6
Percentage change from July, 1958	+64.4	+14.9		+2[c]	+8.3	+29.1
Galesburg	$ 304	8,445			n.a.	$ 40
Percentage change from June, 1959	+16.0	−4.6		n.a.		−6.1
Percentage change from July, 1958	−12.9	+0.3				+25.4
Peoria	$1,289	59,171[c]			$ 251	$ 253
Percentage change from June, 1959	+162.0	−5.2		−18[c]	−7.5	−13.9
Percentage change from July, 1958	+103.3	+37.1		+8[c]	+6.9	+21.7
Quincy	$ 173	10,934		.	$ 50	$ 70
Percentage change from June, 1959	−71.0	+0.2		−15	−8.6	+5.6
Percentage change from July, 1958	+90.1	+19.8		−3	+13.3	+10.4
Springfield	$1,691	44,569[c]			$ 152	$ 226
Percentage change from June, 1959	+138.5	+3.7		−16[c]	+5.6	−21.1
Percentage change from July, 1958	+173.6	+16.6		+6[c]	+24.3	+6.6
SOUTHERN ILLINOIS						
East St. Louis	$ 293	16,512			$ 155	$ 101
Percentage change from June, 1959	−16.5	+4.0		n.a.	+4.7	+55.6
Percentage change from July, 1958	+159.3	+6.7			+2.0	+24.5
Alton	$ 287	28,896			$ 48	$ 36
Percentage change from June, 1959	−85.3	−1.7		n.a.	−8.7	−7.9
Percentage change from July, 1958	+282.7	+96.1			+18.3	+25.4
Belleville	$ 374	11,031			n.a.	$ 44
Percentage change from June, 1959	+74.0	+4.6		n.a.		+1.9
Percentage change from July, 1958	+89.8	+12.1				+32.2

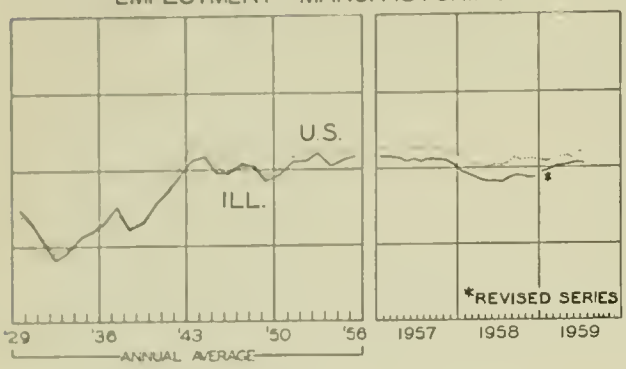
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Data for July, 1959, are not available on a comparable basis. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending July 24, 1959, and July 25, 1958.

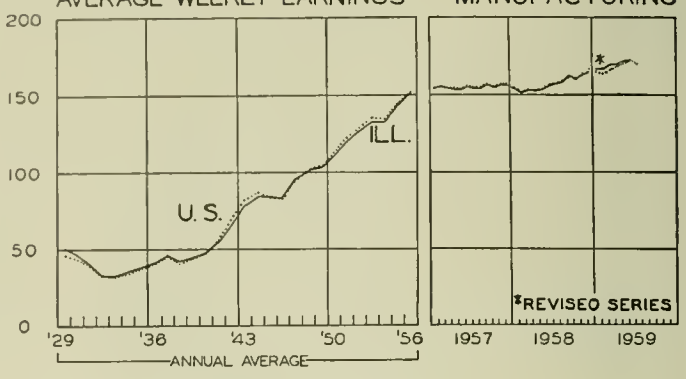
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

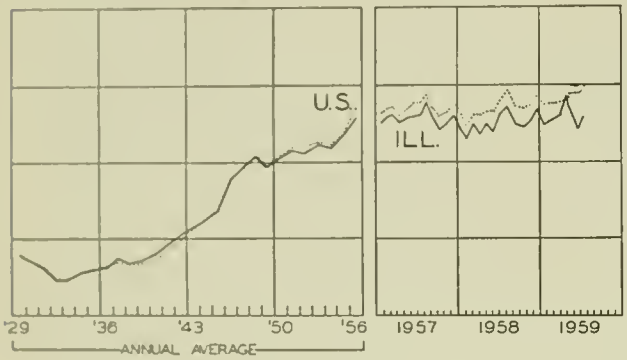
EMPLOYMENT MANUFACTURING



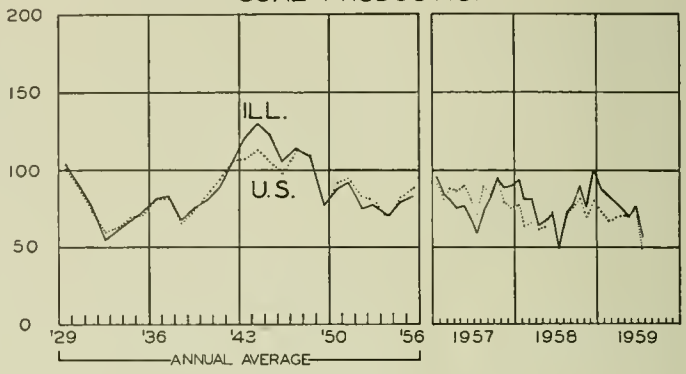
AVERAGE WEEKLY EARNINGS — MANUFACTURING



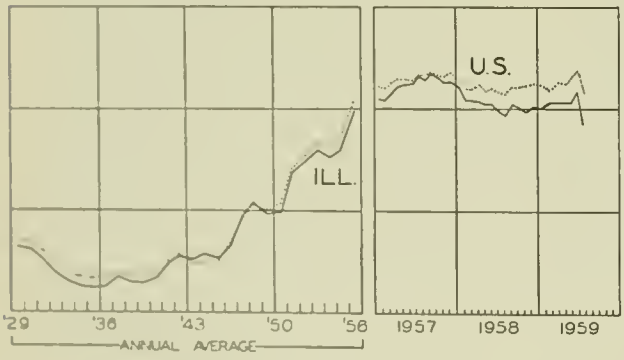
DEPARTMENT STORE SALES



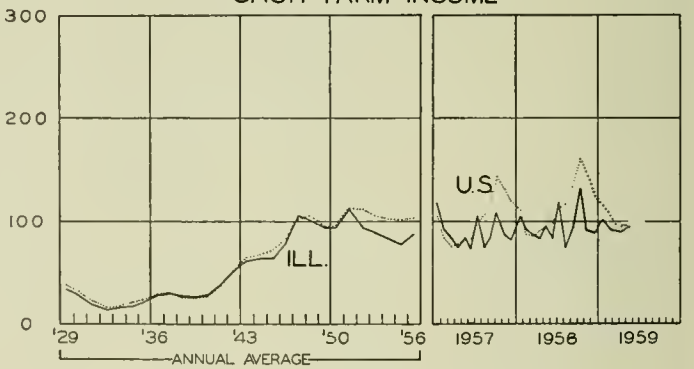
COAL PRODUCTION



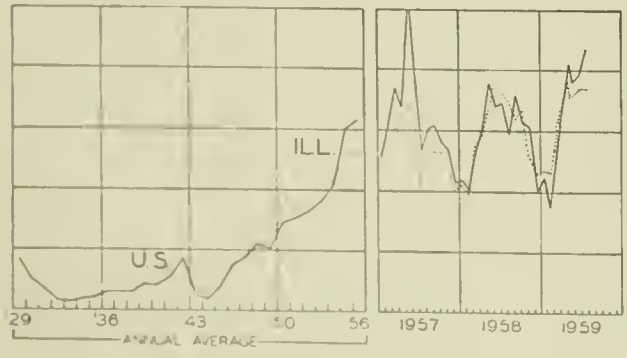
BUSINESS LOANS



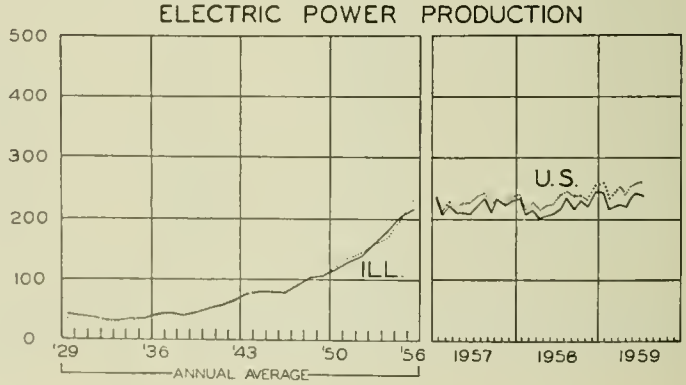
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

The steel strike continued to be the principal damper on economic activity in September. Few firms experienced shortages of steel that curtailed production, but some cuts were expected in October. The index of industrial production fell 1 point to 148 (1947-49 = 100). Automobile output picked up rapidly in the second half of the month as model changeovers were completed. Paper, paperboard, and lumber production maintained a high level, but electric power output fell sharply, as the need for air conditioning declined with cooler weather. Coal production and carloadings were still held down by the steel strike.

A preliminary estimate put seasonally adjusted retail sales in September at $17.8 billion, down 2 percent from August. Retail deliveries of 348,400 American-made automobiles, the lowest monthly total this year, brought sales in the first nine months of this year to 4,220,000 units. Although this was well above the 3,135,000 marketed in the corresponding period of 1958, it brought the annual rate of sales down to about 5.6 million cars. With imports, this would bring the total for the year to a little over 6 million units.

Treasury Issue Oversubscribed

The United States Treasury received more than $11.1 billion in orders from 130,000 subscribers for its $2.0 billion issue of 5 percent notes (later raised to $2.2 billion). With a maturity period of four years and ten months, which avoided the interest ceiling of 4¼ percent on bonds (issues of 5 or more years' maturity), the notes were selling at a premium of as much as 1 point on a when-issued basis on October 7, the day after their sale by the Treasury. On October 9 they closed at 100 26/32 bid, at which price they would yield an investor 4.77 percent.

Nearly half of the issue, $927 million, went to 110,000 individuals. Savings-type investors, such as insurance companies, pension funds, and savings and loan associations, were awarded 45 percent of their subscription, or $610 million, and commercial banks got about $579 million, 8 percent of what they had offered to take.

Sales, Inventories Off

Sales by manufacturing and trade firms dropped $2.2 billion in August to $59.5 billion after seasonal adjustment. The steel strike accounted for a large part of the decline in manufacturing sales, which were off 5 percent to $29.3 billion. Most of the reduction was in durables. Sales by wholesalers fell to $12.2 billion, both durable and nondurable goods trades experiencing declines of 4 percent from July. Retail sales dropped $200 million, equally divided between hard and soft goods, from their record high of $18.3 billion in July. As compared with August, 1958, all of these groups showed sales gains, with total sales rising 8 percent.

Liquidation of stocks by primary metal, fabricated metal, and transportation equipment manufacturers and by retail automobile dealers accounted for most of the $400 million decline in the book value of manufacturing and trade inventories. Total stocks were valued at an adjusted $89.4 billion at the end of August, with those of manufacturers amounting to $52.0 billion and those of retailers to $24.9 billion, both off $200 million.

New orders received by manufacturers also fell during August, dropping 6 percent from July to an adjusted rate of $29.1 billion. Nearly all of this reduction came in the durable goods industries most affected by the steel strike.

Unemployment Down

The steel strike held the decrease in unemployment from August to September to a less-than-seasonal 196,000. The total out of work in the latter month was 3.2 million. With total employment down 900,000 to 66.3 million, the seasonally adjusted rate of unemployment rose from 5.5 percent to 5.6 percent.

Farm Surpluses

The Agriculture Department reported that it had $8.6 billion tied up in farm surpluses on June 30, 1959. This was the smallest amount since last November's total of $8.3 billion but was still well above the $7 billion holdings in mid-1958.

The latest figure included holdings of $2.4 billion in crops under price support and $6.2 billion in farm commodities owned outright by the government. The Agricultural Department takes title to a farmer's crop if he fails to repay his price-support loan on schedule, as usually occurs when market prices fall below federal price support rates.

The agency stated that the $2.4 billion in crops under price support included 6 million bales of cotton valued at $1 billion; 892 million pounds of tobacco worth $580.2 million; and 412 bushels of corn valued at $513.5 million. Major items in the $6.2 billion worth of commodities owned by the government included 1.1 billion bushels of wheat valued at $2.9 billion and 1 billion bushels of corn worth $1.9 billion.

SPECULATION AND STOCK PRICES · · · By Paul T. Kinney · · · Page 8

ILLINOIS BUSINESS REVIEW

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Figments of Inflation

President Eisenhower in a strongly worded message to Congress requested removal of the interest ceiling on government bonds (defined as obligations with maturities of 5 years or more). The emphasis no doubt reflected the attitude of the Treasury administration, which is the first in a quarter-century that has displayed no inclination to resist pressures for higher rates but rather a willingness to meet the market more than half way. Although the law setting the ceiling is generally conceded to be out of date, Congress turned down the request. Doubt of the need and mistrust of what the Treasury would do with the power to commit the government to high charges over the long term were evident in its action.

Secretary of the Treasury Anderson then announced that he had no choice but to follow inflationary debt management policies. He showed what he meant by offering a $2 billion issue of notes at 5 percent for a term just short of the 5-year limit. The issue was heavily oversubscribed. According to the *Wall Street Journal*, "pleased lenders clamor for the 5 percent U. S. notes."

Recent Behavior of Prices

Interest rates have been pushed thus to new postwar peaks in the name of the fight against inflation. The inflation being fought, however, is theoretical rather than actual. Commodity prices have been relatively steady for two years and extraordinarily steady for more than a year.

The consumer price index has risen less than 1 percent during the past year. Most of the advance was in services, with commodities rising only 0.2 percent during this period. This small increase may be accounted for largely by increased processing, as of prepared foods, and higher distribution costs. The continuing rise in services reflects certain lags, as in housing and utilities, where contracts and regulations prevent quick adjustments. It also reflects the heavy proportion of wages and salaries in many service charges. Some increase in wages relative to prices is characteristic of an economy in which growth of real income is sustained by rising productivity.

In August, the wholesale price index was exactly the same as in August a year ago and it was down almost 1 percent from the high reached in April. Farm products and foods declined almost steadily throughout the year. During the first eight months, the decline was offset by advances in other commodities. After the latter stabilized, the index as a whole declined.

The stability of wholesale prices is sometimes thought to be temporary and precarious, because it resulted in part from a balance between declining farm prices and rising industrial prices. This may be true, but the next substantial change will not necessarily be upward. The conditions of surplus that maintain downward pressure on prices are not confined to agriculture. Throughout the economy industrial capacity is ample, and in many industries it is excessive. There has been an intensification of competition, including competition from abroad, that places a restraint on price increases. It is significant that prices of products other than farm products and foods remained stable during the second quarter. Then the economy was at the peak of an inventory boomlet. It was the kind of situation in which prices usually rise fastest, but they could do no better than hold even.

The Inflation Phobia

The facts of the current situation evidently do not justify the fears of inflation. It is like the little man who isn't there. The months pass — he isn't here again today — but those infected with the inflation phobia are more determined than ever to kill off this figment. Apparently, nothing short of actual deflation will convince them that their efforts are misplaced.

The President's Cabinet Committee on Stability for Economic Growth seems to confirm this view. Its latest report takes note of the recent stability but lays greatest stress on "the virtual absence of falling prices." It summarizes the record of price movements from the depression lows of the early 1930's to the recent highs as the basis for drawing a presumptive conclusion that "rises in price level are now permanent and cumulative."

A longer look at price history does not encourage one to accept the implicit assumption that the situation cannot take a turn for the worse. After each previous postwar inflation, there was a deflation of prices in two stages — first there was a sharp reaction from the peak and then, after a period of relative stability, prices suffered another substantial decline as the boom culminated in depression. In the present instance, the pattern has been modified in various ways; the initial decline was deferred until mid-1948 and prices were given a new upward thrust by the Korean War. In addition, the secondary downward movement of prices that might be expected to accompany the end of the postwar boom has not yet been experienced. Nevertheless, by analogy with earlier situations, it is at least as reasonable to expect prices to decline as to expect any further significant increase.

The primary reason for thinking the situation might be different now is the cold war. Other structural and environmental changes are hardly potent enough to override the usual cyclical reactions. It may be good politics to talk both peace and prosperity, but unless military demands intensify, present price levels cannot be considered permanent. Through this period of tension, other countries have rebuilt and improved their efficiency to the point of being able to undersell us. Imports of autos and electrical equipment have shown our prices to be vulnerable to competition. At this juncture, any substantial relief from cold war tension will put downward pressure on prices. Even with military programs maintained at present levels, deflation remains a much more serious threat than inflation. Its consequences for our political institutions and our international position will be far

(Continued on page 6)

SOFT DRINKS — AN AMERICAN HABIT

The manufacture of soft drinks dates back to the late 1700's when carbonated water was developed from attempts to reproduce the effervescent waters of certain European spas, famed for their reputed therapeutic value.

Although duplication of carbonated waters had interested scientists throughout the 1600's, it was not until about 1780 that an apparatus became available which could produce commercial quantities of carbonated water. Soon afterward, commercial bottling plants sprang up in most of the larger European cities.

The soft drink industry began in the United States in 1807 at New Haven, Connecticut, where a store was opened to dispense artificial waters which had been experimentally produced at Yale University. By 1849, there were 64 plants producing more than 36 million bottles valued at $760,000. Since 1849, production has risen nearly every year, with the exception of the early 1930's and during World War II when sugar restrictions prevailed. Per capita consumption increased from 1.6 bottles in 1849 to 189.2 bottles in 1957.

The industry made only clear, effervescent water at first, but by the late 1800's was producing a variety of flavored carbonated beverages made chiefly from extracts, aromatic roots, and spices. The leading soft drinks at the turn of the present century were ginger ale, root beer, cream soda (vanilla), and a type of strawberry soda. Today, cola drinks are easily the most popular, accounting for 58 percent of total sales. Others in order of sales preference are lemon-lime (10 percent), orange (8 percent), root beer (6 percent), ginger ale (5 percent), grape (2 percent), and sparkling water (2 percent).

An Industry of Small Businesses

The soft drink industry today is chiefly composed of a large number of small bottling plants mostly serving local markets. Its 5,400 bottling plants are located in every state, the distribution being determined largely by population and climate. The industry annually ships nearly 1.3 billion cases valued at more than $1.3 billion.

More than 75 percent of the bottling plants employ fewer than 20 persons and less than 3 percent have more than 100 workers. In addition, the industry, which is highly mechanized, has a small ratio of production workers (10 "other" employees to 9 production workers), principally because of the large number of delivery personnel needed. Altogether, the industry has about 100,000 employees.

The typical bottling company, especially the producer of cola beverages, operates on a franchise basis, obtained from a flavoring company (often called a "parent" company). "Parent" companies, which are associated with more than 80 percent of the nation's bottling plants, sell syrups and concentrates to bottlers who then add about 95 percent carbonated water, bottle the product, and deliver it to local retail outlets. Although bottlers operate under the parent company's trade-name, nearly 90 percent of them are independently owned and managed. This relatively loose affiliation permits the bottling firm to benefit from the popularity of the trade-name but usually frees the parent company from capital investments in the bottling plants. As a result of this structure, the parent company can concentrate on national or regional promotion of its trade-name.

Trends in Merchandising

The industry has attempted to reach new markets in the postwar period with new methods of merchandising. Probably the most important has been the widespread use of vending machines, which have been put in many new outlets, such as schools, restaurants, and factories. In addition, novelty drinks, such as dietetic beverages, quinine waters, and "fizz" tablets have reached a new but limited market; they constitute about 3 percent of total sales.

One of the significant trends in the postwar period has been the shift in packaging styles. Of particular importance has been the use of king-size (20-24 ounce) and intermediate size (8, 9, or 10 ounce) bottles, which have increased sales for home consumption and have helped bottlers to break the traditional five-cent price barrier. The growth of supermarkets is the reason given for the popularity of the larger bottles, which make up about 16 percent of the total containers sold, compared with only 4 percent in 1947. The standard 6 and 7 ounce bottles still hold the major share of sales but have declined from 60 percent to 50 percent since 1947.

Canned soft drinks, a recent innovation, have not met the expectations of the industry. Although cans may eventually become the typical beverage container, the high unit cost and slow public response have deterred many companies from switching to these containers on a larger scale.

Illinois — Sixth in Bottling

Illinois is among the leading states in the bottling of soft drinks and is even more important in the manufacture of flavoring syrups and concentrates. In 1954 (the year of the last official Census of Manufactures), the 223 bottling plants in this State added nearly $32 million by manufacture. Although this was an increase of nearly 60 percent over 1947, the State dropped from fifth to sixth nationally.

The State is second only to New York in the production of flavorings. These two states together produced more than a third of all flavorings used for soft drinks.

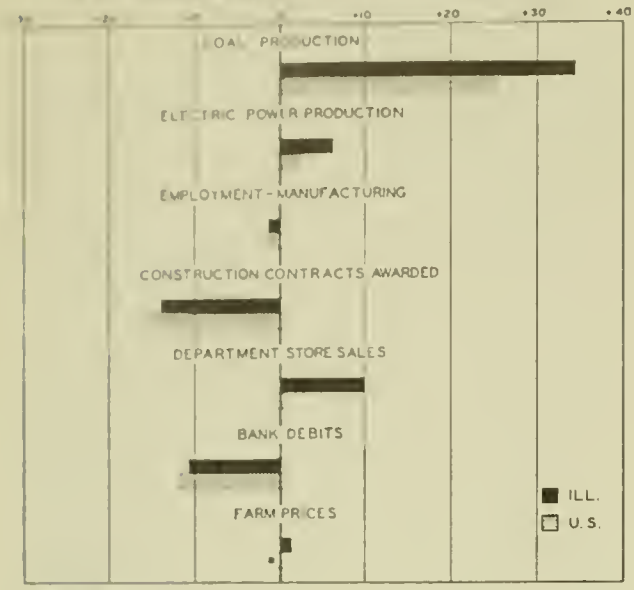
As is true in other states, bottling plants in Illinois typically are small. Only 23 percent (52) of the plants employed more than 20 persons in 1954. Altogether, the plants in Illinois hired about 4,600 persons, of whom only 2,100 were production workers.

There are bottling plants in nearly 80 cities, with the greatest concentration in northern Illinois, especially in Chicago, which has nearly two-fifths of the state's total. Springfield is second. Other important centers of soft drink production are Belleville, East St. Louis, Joliet, Rockford, and Peoria, each with about five bottling plants. Syrups and concentrates, on the other hand, are manufactured mostly in the Chicago area, with only one-sixth of the flavoring plants located downstate.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1959, to August, 1959



*No change.

ILLINOIS BUSINESS INDEXES

Item	Aug. 1959 (1947-49 = 100)	Percentage change from July 1959	Percentage change from Aug. 1958
Electric power[1]	252.9	+ 6.2	+ 7.8
Coal production[2]	40.0	+34.4	+ 5.1
Employment—manufacturing[3]	101.1[a]	− 1.1	+ 4.1
Weekly earnings—manufacturing[3]	169.2[a, b]	− 2.0	+ 7.8
Dept. store sales in Chicago[4]	127.0[c]	− 1.6	0.0
Consumer prices in Chicago[5]	128.3	0.0	+ 1.1
Construction contracts awarded[6]	371.7	−14.1	+25.3
Bank debits[7]	195.3	−10.8	+16.2
Farm prices[8]	80.0	+ 1.3	− 9.1
Life insurance sales (ordinary)[9]	281.8	− 7.7	+ 3.0
Petroleum production[10]	119.8	− 3.2	− 0.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for July, 1959; comparisons relate to June, 19[illegible], and July, 19[illegible]. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Aug. 1959	Percentage change from July 1959	Percentage change from Aug. 1958
	Annual rate in billion $		
Personal income[1]	381.4[a]	− 0.7	+ 5.2
Manufacturing[1]			
Sales	351.6[a]	− 5.2	+11.0
Inventories	52.0[a, b]	− 0.4	+ 5.0
New construction activity[1]			
Private residential	25.0	− 1.0	+21.7
Private nonresidential	18.1	+ 1.9	+ 6.7
Total public	20.3	+ 4.1	+ 9.9
Foreign trade[1]			
Merchandise exports	17.6[c]	+ 3.0	+ 3.7
Merchandise imports	15.0[c]	− 8.8	+19.0
Excess of exports	2.6[c]	+291.1	−39.9
Consumer credit outstanding[2]			
Total credit	47.9[b]	+ 1.4	+10.9
Instalment credit	37.0[b]	+ 1.6	+11.5
Business loans[2]	29.9[b]	+ 1.4	+ 0.0
Cash farm income[3]	28.6[c]	+11.9	− 6.9
	Indexes (1947-49 = 100)		
Industrial production[2]			
Combined index	149[a]	− 2.6	+ 9.6
Durable manufactures	159[a]	− 5.4	+10.4
Nondurable manufactures	146[a]	0.0	+ 9.8
Minerals	119[a]	− 0.8	− 0.8
Manufacturing employment[4]			
Production workers	98	− 4.3	+ 4.8
Factory worker earnings[4]			
Average hours worked	102	+ 0.5	+ 2.3
Average hourly earnings	165	− 1.8	+ 2.8
Average weekly earnings	167	− 1.3	+ 5.2
Construction contracts awarded[5]	311	−15.7	−11.0
Department store sales[2]	150[a]	+ 0.7	+ 2.0
Consumer price index[4]	125	− 0.1	+ 0.9
Wholesale prices[4]			
All commodities	119	− 0.3	0.0
Farm products	87	− 1.6	− 6.7
Foods	106	− 1.6	− 4.9
Other	128	0.0	+ 1.8
Farm prices[3]			
Received by farmers	88	0.0	− 3.3
Paid by farmers	119	0.0	+ 1.7
Parity ratio	80[d]	− 1.2	− 5.8

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp. [a] Seasonally adjusted. [b] As of end of month. [c] Data are for July, 1959; comparisons relate to June, 1959, and July, 1958. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 Sept. 26	1959 Sept. 19	1959 Sept. 12	1959 Sept. 5	1959 Aug. 29	1958 Sept. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,282	1,297	1,280	1,223	1,220	1,501
Electric power by utilities	mil. of kw-hr.	12,878	12,779	13,109	13,759	14,109	12,342
Motor vehicles (Wards)	number in thous.	114	83	37	33	34	57
Petroleum (daily avg.)	thous. bbl.	6,858	6,823	6,813	6,785	6,765	7,100
Steel	1947-49 = 100	21	21	19	19	19	105
Freight carloadings	thous. of cars	587	578	481	544	549	673
Department store sales	1947-49 = 100	145	158	133	148	139	136
Commodity prices, wholesale:							
All commodities	1947-49 = 100	119.6	119.6	119.4	119.3	119.3	119.1[a]
Other than farm products and foods	1947-49 = 100	128.3	128.3	128.3	128.3	128.3	126.2[a]
22 commodities	1947-49 = 100	85.7	86.5	87.6	86.9	87.0	85.8
Finance:							
Business loans	mil. of dol.	29,374	29,346	29,005	28,990	28,976	n.a.
Failures, industrial and commercial	number	282	264	222	308	257	268

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for September, 1958. n.a. Not available.

Machine Tools

The National Machine Tool Builders' Association reported orders for all types of machine tools fell sharply from $63.4 million in July to $52.4 million in August, a decline of 17 percent. Although the August figure was well above the $28.3 million of the same month last year, it represented the second consecutive decline since the June peak of $65.4 million. The latest reductions were attributed to the combined effects of the steel strike and summer vacations.

In the important area of metal cutting tools, often considered an indicator for the capital goods buying prospects of manufacturers, the decline was less pronounced. Orders in August totaled $39.1 million, 11 percent below the previous month's level.

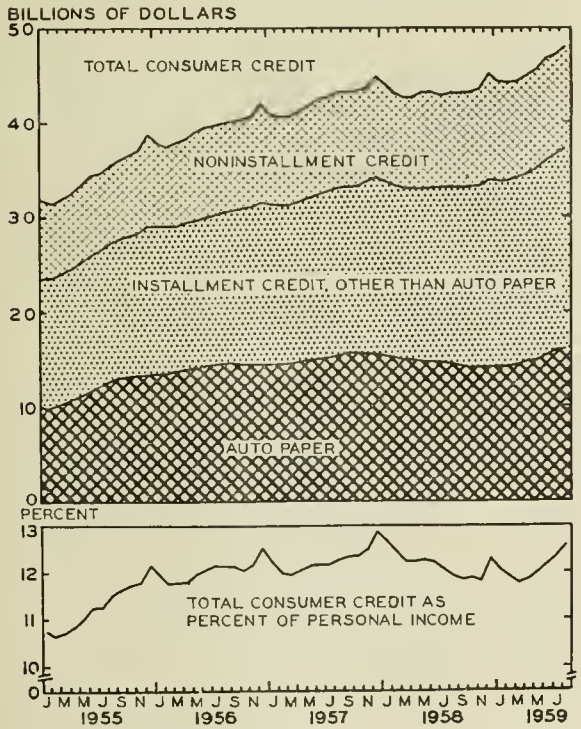
Shipments of all types of machine tools dropped only slightly in August to $40.4 million, from $40.6 million in July. For the first eight months of this year, shipments amounted to $330 million, compared with $366 million in 1958. Net new orders, however, rose to $421 million from $235 million in the same period last year.

Consumer Credit

Continuing the strong upward trend which began in March, instalment credit rose a seasonally adjusted $502 million in August. This advance was slightly above the increase of the previous month and pushed total instalment debt outstanding at the end of August to a record of more than $37 billion, about $4 billion greater than a year ago. Extensions of new credit during the month amounted to $4,103 million, while repayments totaled $3,601 million.

Outstanding auto credit in August rose an adjusted $208 million, somewhat less than in July but about the same as the average increase for the second quarter. On August 31 total auto credit amounted to $16.1 billion.

CONSUMER CREDIT



Source: Federal Reserve Board.

This represented a year-to-year increase from August 31, 1958, of about $1.6 billion, compared with a decline of about $950 million between August 31, 1957, and the same date last year (see chart). Other consumer goods credit and repair and modernization loans showed a somewhat larger expansion during August than in recent months.

Noninstalment credit — single-payment loans, charge accounts, and service credit — rose a seasonally adjusted $77 million during August and at the end of the month stood at $10.9 billion. The combined increases in instalment and noninstalment debt brought total consumer credit outstanding on August 31 to $47.9 billion, a rise of $4.9 billion from the corresponding figure a year ago.

Industrial Production

The Federal Reserve Board's index of industrial production declined in August for the second straight month following a record 155 (1947-49 = 100) reached in June. August production, which caught the first full month's effect of the steel strike, dropped to a seasonally adjusted 149 percent of the base period average. A year ago, the index was down to 136.

Steel ingot production in August and in the first half of September was about 12 percent of capacity, compared with an average 42 percent in July and 90 percent in June. Thus, the work stoppages in steel caused almost all of the production decline in August to be centered in the primary metals industries, while other sectors were affected little by the strike itself.

In the auto industry, output declined from 158 in July to 133 in August, but most of this reduction resulted from model changeover shutdowns. Output of most other consumer goods remained at record midyear levels.

Foreign Trade

The value of both exports and imports declined 5 percent during August, according to the most recent Commerce Department report. Most of the drop in exports resulted from decreases in shipments of aircraft, machinery parts and accessories, and commercial motor trucks. The import reduction was caused largely by a sizable drop in foreign car imports.

August commercial exports, which exclude military shipments, fell to $1.3 billion, about $55 million under July but approximately the same level as August last year. Imports for the month totaled slightly under $1.2 billion as against the unusually low August, 1958, figure of $950 million. Thus in August, as in July, the value of exports exceeded the value of imports, after falling behind by some $22 million in June.

For the first eight months of this year commercial exports amounted to $10.6 billion, a drop of 3 percent from the corresponding 1958 period. Imports, on the other hand, totaled $9.9 billion through August, about 19 percent higher than for the same period last year.

Construction Contract Awards

Contract awards for future construction dropped sharply in August both from year-earlier and from previous-month levels, according to the F. W. Dodge Corporation. The most severe decline of this year saw contract awards fall 11 percent below August, 1958, to $3.1 billion. In July contract awards totaled more than $3.6 billion.

Nonresidential construction contracts were especially hard hit as uncertainty over the steel situation caused

awarding of contracts to be deferred in some cases. Except for hospitals, every nonresidential type of building award declined during August. Total nonresidential contracts fell 11 percent from the previous year to $961 million in August. Manufacturing buildings, which had been experiencing a comeback from low levels last year, suffered a 6 percent decline.

Total residential building contracts rose to more than $1.5 billion during the month, 7 percent above August, 1958. Apartment units, however, fell 19 percent to $138 million. Single family housing, which uses relatively little steel, continued to gain during August.

The August decrease in total construction contracts checked a steadily rising trend of awards in the first seven months of 1959, compared with last year. Through July, total awards had risen 11 percent above the same 1958 period. The decline in August, however, resulted in an eight month total for 1959 of about $25.6 billion, only 7 percent ahead of last year.

Figments of Inflation

(Continued from page 2)

worse than any inflation of the kind we have experienced in the eight years since the peak of the Korean bulge.

Although the anti-inflationists pay lip service to free enterprise and competition, they exhibit little faith in the ability of the economy to produce amply enough to keep prices within reasonable limits. Viewed as a phenomenon of economic history, this lack of faith may be regarded as a typical development in our economic system, representing one aspect of its instability. It becomes part of the pattern by which extremes in speculative fervor and tight money are reached just prior to a collapse.

Has Tight Money Helped?

In view of the Administration's desire to avoid more direct forms of control, the Federal Reserve System is relied on to carry the burden of the attack on "inflation." Its weapons are tight money and high interest rates. What has been their effectiveness in recent months? It is enlightening to ask this question with respect to each of the five areas in which demand for funds has been heavy: business inventory accumulation, expansion of consumer credit, the federal deficit, mortgage loans, and state and local projects.

With respect to the first two, efforts at control have met with signal failure. Since the early part of the year, bank loans have surged upward by $10 billion, an extremely rapid rate of advance. There is no evidence of any restriction on business borrowing to carry inventories. Consumer borrowing surged to a new post-Korean peak rate. Apparently some check to these forms of credit use has come from the steel strike, but hardly any from the Fed's action. The Fed abjures specific controls; it endorses the priority of business loans in use of bank credit, and it works through the banking system only, avoiding direct restrictions on other financial institutions. With control of bank loans ineffective and other institutions uncontrolled, the Fed can have little influence on these unstable short-term uses of funds that push the economy to a vulnerable extreme.

The banks obtained most of the funds used in expanding their loans by selling off federal securities. The market for governments was therefore put under a double burden — absorbing bank sales and financing the deficit for fiscal 1959. Although both may be regarded as temporary, the Fed has done little to support the market. Its holdings of governments increased but hardly by enough to take care of the gold outflow and the seasonal increase of currency in circulation. The main effect of both Fed and Treasury action has been to maximize interest charges on the federal debt and thus keep the budget in as bad a condition as possible.

It is widely supposed that the Treasury is barred from the long-term market by high short-term rates and the "artificially low" ceiling on bonds. The usual theory is that long rates should be higher than short because of the greater risk. What this overlooks is that risk is a matter of probability, and there are probabilities on both sides, not just on one. In fact, the probability that rates will be lower at some time within the next decade, let alone the next two or three, is overwhelmingly high. There has been no real test of what the long market could absorb with the Treasury showing determination to hold rates down and the Fed relaxing its "bills only" policy as necessary to permit it to operate as an effective auxiliary.

With respect to other long-term investment markets, developments to date do not show any important slowing of activity under the impact of high interest rates. Through the first half of 1959, mortgage financing continued near the peak and state and local security issues reached a new high. However, the latest data suggest that restriction of homebuilding and of state and local projects may be beginning to take hold. Restrictions here are not readily reversible, and any extended drop in these activities will put the whole economy in danger.

Danger in Federal Reserve Policies

Just what effects high interest rates have is largely indeterminate, as was pointed out here last February and March. In the short run, they tend to be inflationary: They pull funds out of hoards and make possible higher rates of spending through increases in velocity. They raise costs and higher costs usually mean higher prices; this effect is reflected, for example, in recent decisions raising permissible utility rates. They are supposed to protect the value of fixed claims, but by depressing the value of outstanding bonds, they do just the opposite; this makes holders panicky, and their efforts to shift force up the prices of other capital assets — stocks, real estate, and other "inflation hedges" — maintaining a semblance of inflation where none exists in the proper meaning of the term. Over the longer run, they are probably deflationary and, if maintained too long, may intensify a downturn. A critical interpretation of the Fed's policy over the last four years can make it appear as a veritable engine of instability.

The main effects of recent high interest policy, in other words, has been an inversion of what is desirable. Policy should aim at preventing short-term excesses and maintaining long-term investment. Instead it seems to be achieving just the opposite, and when such policy is continued through a period like that of recent months, where an inventory boomlet cannot produce price increases, it is probably mistaken. The only position that can be reached by ignoring the fact that elements of instability work both ways is an irresponsible one.

The sacred cows of the Federal Reserve System are a set of rather inflexible rules now operating to the detriment of the economy. These are: tight money as an anti-inflation measure, even though no inflation is in evidence; bills only, no dealing in longer maturities; banks only, with other lending institutions unrestricted; no specific controls by type of credit; and priority of business loans. It is time that at least part of this heedless herd be given the axe.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Gains in Households

The Bureau of the Census recently released estimates showing the growth in the number of households in the United States between March, 1950, and March, 1959. There were an estimated 51.3 million households in 1959 as compared with 43.6 million in 1950, an increase of 18 percent. During the same period, total population residing in the country increased 16 percent, from about 150 million to nearly 175 million people.

On the average, the total number of households increased by approximately 861,000 per year. During this period, the number of urban and rural-nonfarm households rose by about 959,000 a year, whereas the number of rural-farm households declined by 98,000 a year. In March, 1959, there were 45.9 million urban and rural-nonfarm and 5.4 million rural-farm households.

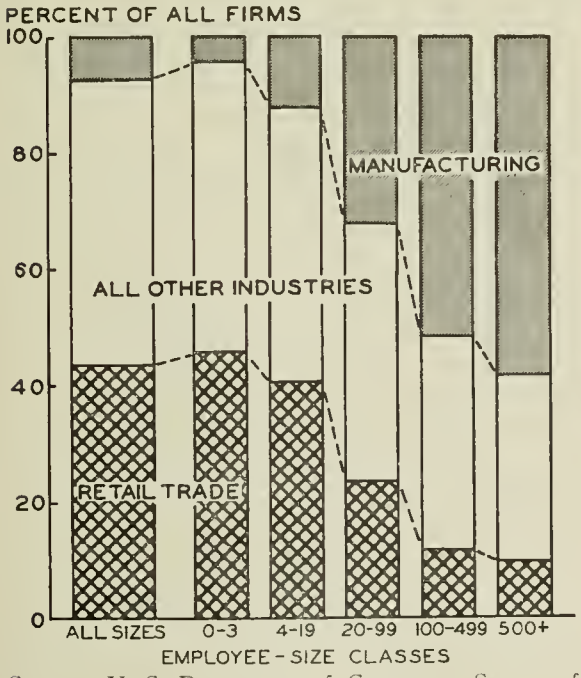
One out of every seven households now consists of persons living alone or with unrelated individuals. This is the highest proportion of such households recorded. Women outnumber men by a margin of two to one among persons maintaining households of this type.

Tamper-Resistant Lock

Larmloc Incorporated in Chicago offers an electric tamper-resistant lock for file cabinets. The product called Larm-O-File comprises a metal hinge which is attached to the side of the cabinet, the lock which is situated on top of the file, and an electric control which contains a rotating dial capable of 56 separate two-number combinations.

The metal hinge provides electrical contact at the top and bottom of the cabinet case. The circuit can be broken, permitting the file cabinet to be opened without setting off the alarm, by the use of the correct combination on the control box. The unit has safeguards against playing with the dial to determine the correct combination. If the second number in the series is not pressed within five seconds after the first, the alarm will ring.

DISTRIBUTION OF FIRMS IN OPERATION ACCORDING TO EMPLOYEE-SIZE CLASSES, 1956



Source: U. S. Department of Commerce, *Survey of Current Business,* September, 1959, p. 14.

Life Insurance in Force

According to the *Life Insurance Fact Book, 1959,* insurance in force set a new record in 1958. Some 112 million policyholders owned policies with a total face value of $494 billion, an average of $11,000 per family. The total was 225 percent greater than the amount owned in 1945, 111 percent more than in 1950, and 33 percent above 1955.

Total life insurance purchases also set a new record of $67 billion last year. Ordinary life policies represented nearly three-fourths of all life insurance purchased in 1958 and exceeded 1957 by more than $2 billion. There was a decrease of $2 billion, however, in the amount of group life insurance set up under new contracts in 1958 as compared with 1957.

In 1958, 89 million ordinary life policies were outstanding, representing a total of $288 billion and an average coverage of $3,220 per policy. Group life insurance, which has more than tripled since 1950, accounted for nearly $145 billion of life insurance ownership. The average of group insurance ownership amounted to $3,740 per certificate. Industrial life insurance decreased slightly to $40 billion during 1958, an average coverage of $380 per policy. Credit life insurance increased 9 percent to nearly $22 billion during the year. The average size of credit life insurance policies and certificates was $610.

Size of Business Firms

The September, 1959, issue of the *Survey of Current Business* contains the most recent size-of-firm information available. Slightly less than 1 percent of all firms had 100 or more employees in 1956; however, these larger firms accounted for about 59 percent of all employment. At the other end of the scale, firms with fewer than four employees represented 75 percent of the operating firms but only slightly more than 6 percent of employment; 40 percent of the firms had no employees at all. Only one firm in 20 employed more than 20 individuals.

Retail trade accounted for 45 percent of the firms with fewer than 20 employees. On the other hand, manufacturing concerns were the most numerous among firms with 20 employees or more and accounted for more than 50 percent of all firms with 100 or more employees (see chart).

The broad size class embracing 50-999 employees includes roughly one-third of all paid employment in each major industry except retail trade and the transportation division, in which the proportions are much smaller. In wholesale and retail trade, contract construction, and the service industries, firms with fewer than 50 employees have the largest share of all paid employment.

As expected, the entry rate — that is, the ratio of the number of new businesses established during a period to the number in operation at the beginning of the period — is highest among firms with fewer than four employees, decreasing as the size of firm increases. The rate of new firm formation was exceptionally high during the early postwar years, but has remained very stable in each size class since 1948.

SPECULATION AND STOCK PRICES

PAUL T. KINNEY, Assistant Professor of Finance

Many investors will recall the spectacular break in stock prices in October, 1929, and the zealous speculation which preceded the crash. This was the time when such experts as Irving Fisher proclaimed the permanence of prosperity and even such outspoken critics of American capitalism as Thorstein Veblen participated in the orgy of common stock speculation. During the collapse, millions of people, many still nursing financial wounds of the ill fated Florida land boom, watched helplessly while their paper wealth vanished in a fraction of the time it took to accumulate. Such was the aftermath of speculation.

As to the presence of speculative influences, the 1929 and 1959 securities markets differ more in degree than in kind. In each case stock yields have approached the depths of their historical range, indicating widespread optimism regarding the future course of economic and business activity and a growing lack of concern for any relation between stock prices and underlying values.

Stock Yields and Market Fluctuations

Fundamentally, common stock prices are reflections of expected earnings and dividends, appropriately discounted according to the risk that the expectations may not materialize. In the long run, expectations tend to conform to actual trends in earnings and dividends, which in turn depend upon the course of general economic activity. Thus a basic relationship exists between stock prices and the economic climate, although in the short run this relationship may appear to be remote.

In the short run, expectations may vary widely and are sensitive to factors and events which bear little relationship to economic activity. Events ranging from hurricanes to heart attacks may precipitate sudden price changes. As market moods shift, investors alter their appraisal of alternatives and shift their demand for particular securities accordingly. Even where earnings and dividends are relatively stable, shifts in market moods may result in substantial price changes.

Market fluctuations in the short run are nevertheless limited by historical ranges as well as by trends in earnings and dividends. Over the past 35 years, common stock dividend yields have followed an historical pattern manifesting a definite yield range. Except for extremes reached in the depression of the early 1930's, stock yields for the 125 industrial stocks included in *Moody's* have varied from a high of 8 percent to a low of 3 percent. The lowest yield periods have been the months preceding the 1929 crash, the beginning of the recovery in 1933-34, and the present time. The 1933-34 experience excepted, dividend yields during July and August of this year were lower than at any other time in the past forty years — reason enough to justify a market reaction effecting a realignment of yields on a more realistic level.

Logically one would expect yields to fall as business conditions brighten and to rise where prospects for business are dim. But the direction and extent of price and yield changes depends on yield levels at the outset of a change in business activity. If, as in 1953, yields are unusually high at the start of a business decline, their further rise is not so likely to occur as where previous investor optimism has reduced yields to relatively low levels before the recession occurs.

As yields decline, the probability grows less of their continuing to move in the same direction. Alternatives become more attractive, and market pressures to sell increase in accord with the decline in yields. On the other hand, where yields are rising, stocks become relatively more attractive, thus encouraging additional market activity and eliciting pressures for a reversal of the downward trend in market prices.

Whereas a definite yield range apparently exists in connection with stock market fluctuations, no such range is evident for any particular stock. Dividend yields approach zero for some stocks whose speculative appeal overshadows current dividend considerations.

Distorted Yield Patterns

Yields should bear a close relationship to the risk inherent in the security held. The greater the risk that income to be derived from the investment will not materialize, or will change unexpectedly, the higher the probable yield relative to alternative investments. A government bond, for example, ordinarily would carry a yield substantially below dividend yields for common stocks but only slightly below yields for Aaa industrial bonds. A still lower yield would be expected from high-grade (Aaa) municipals, whose tax status makes them relatively attractive investments.

The accompanying chart shows how much yields have become distorted in recent months. During the past year, common stock dividend yields have remained below the yields on Aaa industrial bonds and for several months have been lower than yields on Aaa municipals. It is apparent that dividend yields are alarmingly low — in relation to historical patterns as well as in relation to alternative investments. When risk differentials are considered, the only plausible explanation for such perverse yield patterns is the presence of an undeniable optimism concerning prospective corporate earnings and dividends — or simply a naive belief that stock prices are predestined to rise more or less continuously for some time to come.

BOND AND STOCK YIELDS

Source: Federal Reserve Board.

A widespread belief in the inevitability of inflation tends to support a speculative boom and a chronic distortion of yield structures. Usually corporate earnings rise faster than general prices; hence inflationary trends create the illusion of growth, at least in money terms. Though inflation may favorably affect corporate earnings, it has the opposite impact upon the holders of corporate debt. The bondholder, in anticipating inflation, will demand a risk premium sufficient to compensate him for the loss in purchasing power which he expects to incur while holding the bond. Thus if holders of bonds and stocks are convinced of the inevitability of inflation, what otherwise would be a distorted yield pattern may become the normal condition for as long as the inflation fear generally prevails.

A distorted yield structure may also result from fluctuation in bond yields. In the present market where Treasury obligations are priced to yield nearly 5 percent, where other bond yields are approaching historical highs, and where common stock yields are less than 3 percent, the relative advantage of holding stocks for capital gains disappears. For as bond yields rise, the probability of their fall in the future increases. Under these conditions, the inflation-hedge argument for holding common stock is weakened considerably, since the prospects for bond price appreciation may exceed those for common stock.

Dividend yields fall as the purchasers of common stock place increasing emphasis upon the possibilities for price appreciation and pay less attention to earnings and dividends. In the growing belief that there will always be someone willing to pay a higher price when the stock is reoffered for sale, speculative zeal increases and introduces a brash disregard for fundamental values. As speculation mounts, yields fall to levels where their relation to alternative investments is grossly distorted, as in the stock market at the present time.

In the present market as well as in 1929, distorted yield patterns stem partly from investor attitudes toward government policy. Overoptimism regarding the ability of government to perpetuate prosperity, production, and employment and a general lack of confidence in the powers of government to curb inflationary pressures have added greatly to the disparity in yields.

Institutional Changes Stabilize

The influence of speculation on yield structures does not pose any immediate dangers other than to indicate the very real possibility of a major market correction. Fortunately institutional and regulatory changes which have occurred in the last thirty years preclude a recurrence of a 1929 collapse and dictate a more orderly change.

Whereas the stock market boom of the late 1920's involved the extensive use of credit on thin margins and at increasingly expensive loan rates, cash rather than credit characterizes the present market. The importance of this change is mainly connected with the impact of emergency sales of heavily margined stock in a declining market. In 1929, many investors carried securities with as little as a 10 percent margin, and a relatively minor decline in market prices brought margin calls and strong pressures to sell. Credit played an important part in eliminating the small investor in the 1929 crash; its excessive use was a principal factor causing wide, volatile swings in prices which, while appealing to the speculator, unnerved the more cautious investor.

Another condition enhancing the short-term speculative swings in the market prices of common stocks was the privilege of selling short in a declining market. No other technical rule has had more influence on the short-run stability of the securities exchanges than the prevention of short sales when prices are already declining. Effective credit controls and restrictions on such short sales have been instrumental as stabilizing influences in the contemporary securities markets.

Rules governing the availability of information about corporate financial affairs are helpful. They have enabled the investor to base his investment decisions on more rational grounds. Unfortunately, however, access to reliable information does not assure its intelligent use. Aside from reducing the chances that a worthless stock may become the focal point of frenzied speculation, the requirement of full disclosure does encourage companies to strengthen their financial position and to reduce their vulnerability to adverse business trends. The stockholder gains in knowing more about his company and in having some assurance as to the fundamental value of his investment. By minimizing trading in obviously worthless securities, there is less chance of a sudden collapse in the price of the security which has been the focal point of speculation; consequently the market is less vulnerable to the price behavior of a purely speculative issue.

Taxes affect the volatility of stock prices through their impact upon trends in corporate earnings and through their influence upon short-term portfolio shifts. Corporate income taxes have encouraged a basic shift in long-term financing from emphasis on new equity issues to greater reliance on internal sources and more extensive use of long-term debt. As corporations avoid new issues of common stock and rely upon internal financing, potential growth rates in earnings per share are higher and exert upward pressure on the market price. The result is an increase in the stock's fundamental value and thus a reduction in its yield. Also the effect is to strengthen the illusion of growth and encourage investor interest in capital gains rather than in present income.

Orderly Retreat

Considering the level and pattern of common stock yields prevailing in the present market, a major adjustment in the level of stock prices appears to be only a matter of time. Dividend yields are not likely to remain below 3 percent without bringing on a reaction; and where yields on common stocks remain substantially below municipal bond yields, the evident distortion in yield patterns invites a strong market reaction.

Yields on common stock have fallen to unusually low levels partly because the market anticipates a substantial rise in earnings and dividends in the near future. If the anticipated increase in economic activity, and in earnings of corporations, materializes, it is possible that a major market correction may be avoided. Even more likely, the realization of optimistic anticipations regarding the future course of economic activity will elicit further and perhaps less cautious speculation than has been evident in the recent past. However, such circumstances would mean a postponement rather than avoidance of a timely market reaction, and the higher level of prices would tend to intensify the reaction.

Previously, speculative booms have culminated in swift collapse wherein the momentum of price decline probably has led to an overreaction, setting the stage for another advance. But the regulatory and other institutional factors present in the securities markets do not permit violent reactions to occur so swiftly and extensively as in the past. Under present market conditions a major market reaction fortunately is more likely to take the form of an orderly retreat than of a rout.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in August reflected to some degree the impact of the steel strike. With the exception of coal production, electric power, and prices, all indicators declined. The greatest declines were experienced in construction contracts awarded, off 14 percent, and bank debits in selected Illinois cities, down 11 percent from the July level. Life insurance sales dropped 8 percent and petroleum production decreased 3 percent.

Comparisons with August, 1958, show increases in all indicators except farm prices, petroleum production, and department store sales in Chicago. Construction contracts increased 25 percent and bank debits 10 percent.

Illinois Nonagricultural Employment

Total nonagricultural employment in Illinois during the first six months of 1959 averaged nearly 3.4 million, an increase of approximately 40,000 over the same period a year ago. Only in the months of January and February did employment fall below the level of the corresponding months in 1958.

In the first half of 1959, manufacturing employment was 2.9 percent above the corresponding period in 1958, reflecting a gain of 5.2 percent in the durable goods manufacturing sector and a slight decline in nondurable goods production. Jobs in trade, service, and government increased by smaller percentages. Employment in mining, quarrying, and petroleum production dropped 5.2 percent, and relatively smaller declines were registered by contract construction, and finance, insurance, and real estate.

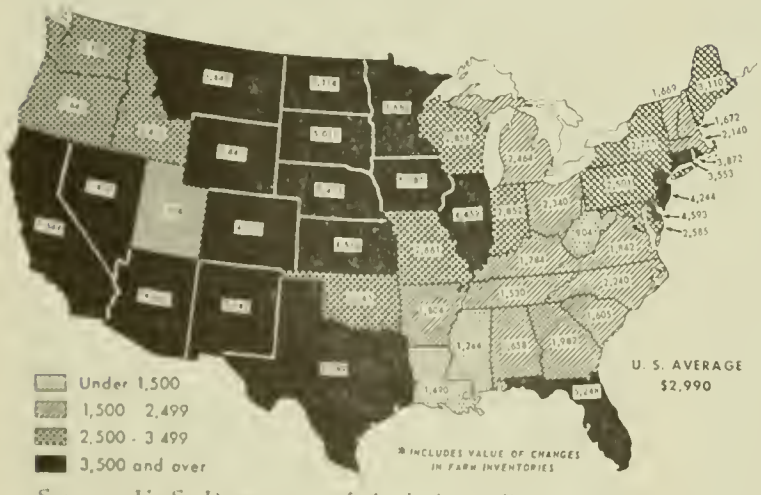
No substantial change in the percentage distribution of employment by industries occurred. Manufacturing continued to employ 36 percent of the workers, with the durable goods sector increasing its proportion of the total by 1 percentage point to 23 percent. The share of wholesale and retail trade remained at 21 percent, while service and miscellaneous industries accounted for 12.3 percent and government for 12.0 percent.

Net Farm Income

In 1958 Illinois farm income averaged $4,459, about 10 percent above 1957 and second only to 1951's high of $4,536. A major factor in the rise in total net farm income over 1957 was the increase in cash receipts from livestock. These advanced $114 million to slightly over $1.3 billion. Owing to a decline in receipts from crops, however, total receipts from farming advanced only $81 million to a total of slightly more than $2.1 billion.

In 1958 Illinois ranked thirteenth in the nation in net farm income per farm. Arizona was highest with $14,025 per farm, while West Virginia had only $904 per farm (see chart). The United States average net farm income per farm was $2,990, an advance of 23 percent from the 1957 level. Farmers in all but five states shared in these gains, with Kansas having the greatest percentage increase in income per farm (132 percent).

TOTAL NET FARM INCOME PER FARM, 1958*



Source: U. S. Department of Agriculture, *Farm Income Situation*, September, 1959, p. 11.

Residential Construction in Chicago

The Chicago Department of City Planning recently released a report indicating the continued growth in residential construction in Chicago. A decided upward movement in residential construction in the city began during the latter half of 1958. About 6,500 building permits were issued between July and December as compared with 3,900 in the first half of the year. Preliminary figures for 1959 indicate that this upward movement is continuing. In the first seven months of 1959, approximately 7,400 permits were issued, an increase of about 65 percent over the same months of 1958.

It is estimated that the total number of dwelling units in the city, as of July, 1959, was 1.2 million. Building permits for nearly 116,000 new units were issued from 1950 through 1958, more than half of them for single-family units.

Bank Loan Loss Experience

The Federal Reserve Bank of Chicago recently published its findings of a special survey of member banks' charge-offs and recoveries on non-insured loans, entitled *Loan Loss Experience at Member Banks of the Seventh Federal Reserve District 1957 and 1958.* For the first time it is possible to relate both gross and net losses to the corresponding loan portfolios and to determine loss rates by type of loans of member banks.

Gross losses of member banks on total non-insured loans during 1957 amounted to $113 per $100,000 of loans outstanding. In 1958, losses were much higher, amounting to $211 per $100,000. Since gross recoveries increased very little, net losses per $100,000 of loans rose from $37 in 1957 to $120 in 1958.

In both 1957 and 1958, net losses on consumer loans, amounting to $117 and $183 per $100,000 of loans outstanding respectively, were somewhat higher than losses by district banks on other types of loans. Business loan losses ranked second to consumer loan losses and experienced a sharper rise in the net loss rate between 1957 and 1958 than any other type of loan, jumping from $21 in 1957 to $166 in 1958. This marked rise in business loan losses was particularly evident in the largest banks of the district. Very few banks reported losses on farm loans or real estate loans during 1957 and 1958. Real estate loans actually reported net recoveries in 1957, whereas in the following year a small net loss rate occurred.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1959

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$42,004[a]	1,226,530[a]			$17,073[a]	$14,270[a]
Percentage change from	July, 1959	+16.9	+0.6		+11	−10.8	+4.4
	Aug., 1958	+61.0	+6.8		0	+16.2	−0.6
NORTHERN ILLINOIS							
Chicago		$30,738	867,642			$15,638	$12,298
Percentage change from	July, 1959	+35.2	−2.5		+10	−10.9	+4.0
	Aug., 1958	+71.3	+2.4		0	+16.9	+0.0
Aurora		$ 613	n.a.			$ 84	$ 149
Percentage change from	July, 1959	−64.3			+16	+0.3	+17.4
	Aug., 1958	+83.0			−1	+32.1	−3.1
Elgin		$ 451	n.a.			$ 55	$ 122
Percentage change from	July, 1959	−48.8			n.a.	+0.2	+48.7
	Aug., 1958	+40.1				+30.3	−0.5
Joliet		$ 505	n.a.			$ 89	$ 94
Percentage change from	July, 1959	−62.6			+15	−9.8	−3.0
	Aug., 1958	−28.9			+9	+12.7	−8.9
Kankakee		$ 96	n.a.			n.a.	$ 54
Percentage change from	July, 1959	−55.8			n.a.		+9.4
	Aug., 1958	−43.9					+4.0
Rock Island-Moline		$ 947	29,904			$ 114[b]	$ 137
Percentage change from	July, 1959	+5.3	+7.9		n.a.	−7.9	−11.8
	Aug., 1958	+9.1	+9.4			+10.2	−13.6
Rockford		$4,826	50,031[c]			$ 198	$ 212
Percentage change from	July, 1959	+258.0	+6.1		+20[c]	−6.2	+8.6
	Aug., 1958	+398.0	+17.0		+12[c]	+14.2	−9.3
CENTRAL ILLINOIS							
Bloomington		$ 365	9,891			$ 73	$ 89
Percentage change from	July, 1959	−60.6	+9.5		n.a.	−12.2	+0.2
	Aug., 1958	−12.5	+9.1			+6.0	−12.3
Champaign-Urbana		$ 360	15,566			$ 74	$ 87
Percentage change from	July, 1959	−18.6	+5.3		n.a.	−15.9	−18.5
	Aug., 1958	−31.6	+21.5			+2.4	−25.9
Danville		$ 162	15,650			$ 48	$ 72
Percentage change from	July, 1959	−35.2	+13.6		+17	−18.4	+36.2
	Aug., 1958	−24.7	+12.0		−5	−0.9	−1.6
Decatur		$ 551	38,243			$ 115	$ 120
Percentage change from	July, 1959	−25.5	+3.3		+8[c]	−13.1	+6.1
	Aug., 1958	−19.4	+7.8		−5[c]	+2.7	+0.5
Galesburg		$ 288	10,038			n.a.	$ 42
Percentage change from	July, 1959	−5.3	+18.9		n.a.		+6.7
	Aug., 1958	−50.0	+6.8				+1.0
Peoria		$ 511	68,724[c]			$ 227	$ 281
Percentage change from	July, 1959	−60.4	+16.1		+21[c]	−9.6	+11.0
	Aug., 1958	+41.6	+26.3		0[c]	+8.1	+7.7
Quincy		$ 178	13,574			$ 45	$ 61
Percentage change from	July, 1959	+2.9	+24.1		+25	−9.7	−12.0
	Aug., 1958	+21.9	+20.6		−4	+11.8	−16.3
Springfield		$1,348	48,267[c]			$ 131	$ 305
Percentage change from	July, 1959	−20.3	+8.3		+18[c]	−13.6	+34.8
	Aug., 1958	+40.4	+11.3		+5[c]	+10.8	+8.0
SOUTHERN ILLINOIS							
East St. Louis		$ 150	18,101			$ 137	$ 68
Percentage change from	July, 1959	−48.8	+9.6		n.a.	−11.3	−33.0
	Aug., 1958	−68.9	+22.7			−1.9	−5.5
Alton		$ 158	28,210			$ 45	$ 33
Percentage change from	July, 1959	−44.9	−2.4		n.a.	−6.9	−9.3
	Aug., 1958	−22.9	+87.8			+7.7	−22.5
Belleville		$ 257	12,689			n.a.	$ 45
Percentage change from	July, 1959	−31.3	+15.0		n.a.		+2.7
	Aug., 1958	+135.8	+8.8				−11.4

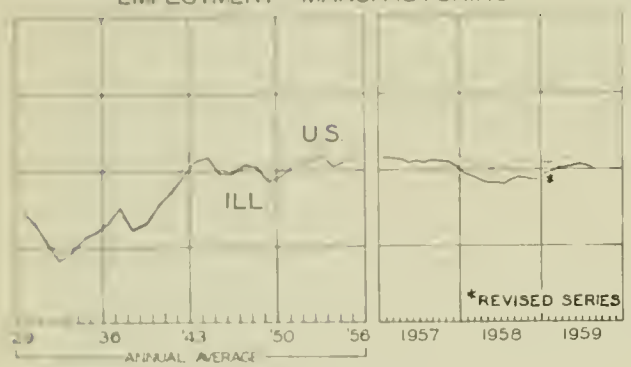
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Data for August, 1959, are not available on a comparable basis. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending August 21, 1959, and August 22, 1958.

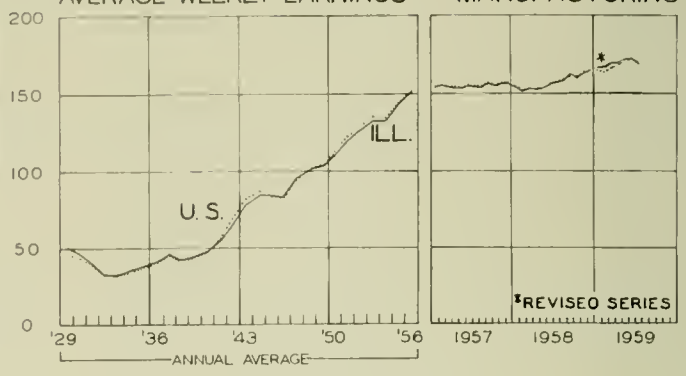
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

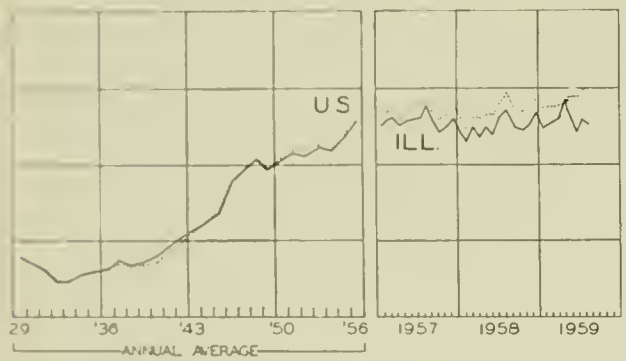
EMPLOYMENT MANUFACTURING



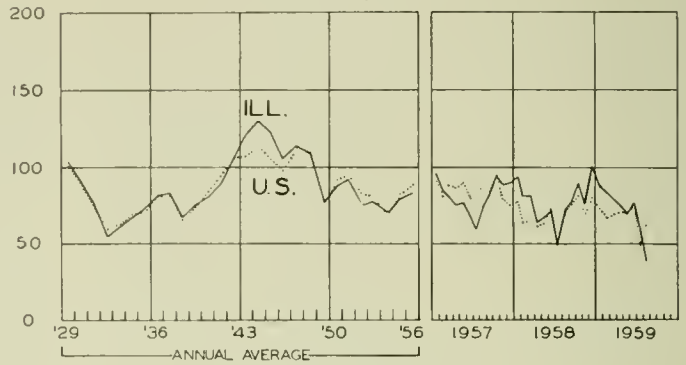
AVERAGE WEEKLY EARNINGS — MANUFACTURING



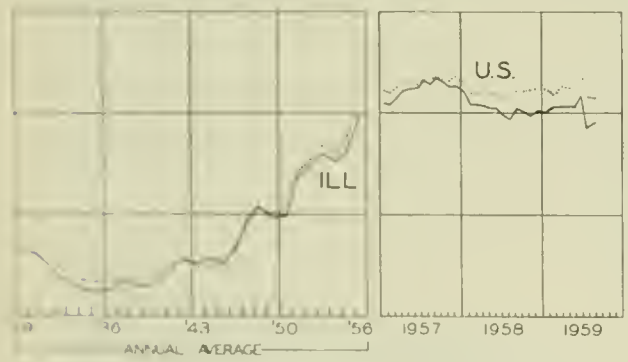
DEPARTMENT STORE SALES



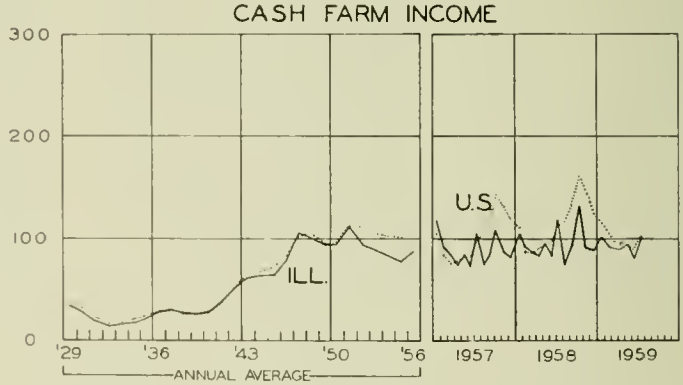
COAL PRODUCTION



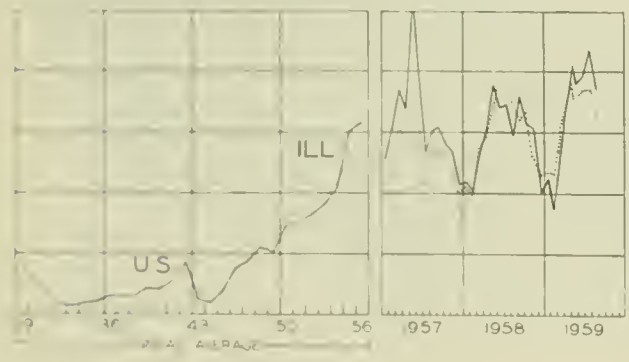
BUSINESS LOANS



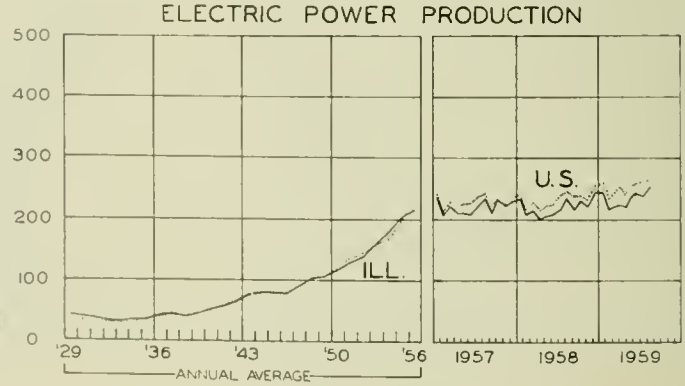
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN OCTOBER

Business activity was further curtailed in October by the steel strike. Industrial production fell, after seasonal adjustment, to 148 percent of the 1947-49 average, 1 point below September. Unemployment rose contraseasonally to 3.3 million, and employment advanced to 66.8 million, raising the adjusted rate of unemployment from 5.6 percent to 6.0 percent.

On October 20 the Administration asked the courts for a Taft-Hartley injunction to halt the steel strike during an 80-day "cooling off" period after a three-man fact-finding board had reported that the issue between the union and the steel companies centered on the latter's insistence upon changes in work rules. In early November the Supreme Court upheld issuance of the injunction by the district court, bringing the strike to an end. However, it is apparent that business activity in the remainder of the fourth quarter will continue to be restricted by the steel shortage.

Auto Sales High

Automobile dealers sold an estimated 527,000 cars in October, a new high for the month. This figure amounted to an average of 19,500 per selling day, but during the final third of the month daily average sales declined to 18,900 from 21,875 in the middle third. Dealers were reported to be insisting on higher prices because of anticipated reductions in supplies of new cars arising from steel shortages. Unofficial estimates placed dealers' stocks of new cars near 580,000, more than a month's supply at the October selling rate.

Production of American-made cars amounted to 507,600 units, nearly double the September output and that of October a year ago. However, production in November will be down sharply because of the steel strike.

Inventories Down, Sales Up

Continuing the liquidation started in August, the book value of manufacturing and trade inventories declined $350 million to $89.1 billion in September, after seasonal adjustment. All of the contraction was in stocks of durable goods manufacturers, which fell to $29.8 billion, and was largest in the fabricated metal, motor vehicle, and other transportation equipment industries. Stocks of retailers held steady at $24.8 billion, although holdings of durables fell slightly while those of nondurables rose. Wholesalers' inventories showed little change at $12.5 billion.

Manufacturing and trade sales increased an adjusted $400 million during the month to $59.9 billion. Shipments of manufacturers rose from $29.2 billion in August to $29.6 billion in September, most of the gain occurring in nondurables. Sales of wholesalers advanced $300 million to $12.5 billion, while those of retailers fell the same amount to $17.8 billion. All the gain made by the former group was in nondurables, and all the loss of the latter was in durables.

Reversing a decline of 6 percent in August, new orders received by manufacturers in September rose 5 percent to an adjusted $30.6 billion. Orders for durables were up 7 percent, and those for nondurables advanced 4 percent.

Construction Continues Slide

After seasonal adjustment, estimates of new construction outlays indicated a decline of $163 million in September, the fourth since May. The adjusted September total of $4.4 billion was down 4 percent from August. The drop was about evenly divided between private and public work, with all major categories of each sharing in it. Private residential building was down an adjusted $130 million, or 7 percent, from the May high. Private nonresidential building, which in August reached a high for the year of an adjusted $772 million, was off 5 percent. A reduction of $38 million in highway outlays accounted for nearly half of the fall in public construction expenditures.

Instalment Debt Up Again

Consumers added $485 million to their outstanding instalment debt in September after allowance for seasonal factors. This was the seventh straight monthly increase and brought the total to $37.5 billion, 13 percent above the year-earlier figure. Obligations in the form of automobile paper rose an adjusted $195 million, about the same as in August, as extensions and repayments showed little change. As a result, consumers owed $16.3 billion on car purchases at the end of the month, also 13 percent above September 30, 1958. Other consumer goods paper increased $94 million and personal loans were up $170 million, bringing the total outstanding of each to about $9.4 billion.

Noninstalment debt showed little change on an adjusted basis, as increases in single-payment loans and service credit were largely offset by reductions in charge accounts. Total consumer debt at the end of September amounted to $48.4 billion, equivalent to 14 percent of disposable personal income.

WHAT DO WE MEAN BY "RESEARCH AND DEVELOPMENT"? · · By David Novick · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Intensified World Competition

Concern over our foreign economic position has called forth efforts to bolster exports. A "Buy American" proposal is being bandied about in Washington, to compel recipients of aid funds to spend them in this country. Where this cannot help, we are reduced to pleading that other countries take over part of the foreign aid burden or take more of our goods by reducing trade barriers.

Our balance of international payments has turned distinctly adverse during the past year, continuing a downward trend that dates from the Suez bulge of early 1957. Exports of goods and services excluding military transfers have dropped back to the pre-Suez level of early 1956. Imports have risen to a new high rate, exceeding exports by a small margin in the second quarter. Since the latter part of 1958, foreigners have been accumulating gold and dollars at an annual rate of almost $4 billion, exclusive of our $1.4 billion capital contribution to the International Monetary Fund. As the counterpart of this, exports of other industrial countries have been booming, and the improvement in their balances has made possible further easing of trade and exchange restrictions.

Shifting in Competitive Conditions

To some extent these developments reflect transitory factors tied to short-term cyclical or pre-strike conditions, but their more important aspects derive from the basic shifts in economic conditions that have occurred since the end of the war. In the days of the "dollar gap," when this country was the only one capable of high-level production, it did not make much difference where the exchange rates were set. Everyone wanted our goods — and the dollars to buy them — and making them expensive was one way to restrict demand. Now our goods remain expensive but other countries have rebuilt and expanded their economies, and the relative price advantage they enjoy will increasingly channel trade away from us.

This is an almost classic example of being priced out of world markets. It was known when the exchange rates were set that costs are lower in other countries. Some of the differences applied only to commodities that did not enter world markets, so that our trade was not immediately affected. Over the longer term it has been possible for other nations to transfer low-cost resources, particularly labor, into producing new products, improving quality and thus increasing their exports; and in many cases, the adoption of new, highly efficient techniques has strengthened their ability to compete.

With rehabilitation relatively complete, Europe and Japan have become competitive enough to take over markets in third countries and even to invade our domestic market for products in which we were dominant. When our manufacturers sought steel supplies abroad as strike protection, they found it not only available, but also cheaper. Earlier, the upsurge in auto imports and the low bids of foreign producers on contracts for heavy electrical equipment had gained attention. Optical goods, petroleum, textiles, and some chemicals provide other examples of competition we cannot readily meet. We are still competitive in many products but the list is narrowing.

In the older theory of international trade under fixed exchange rates, the loss of export markets and the gold outflow would bring about an adjustment by forcing deflation in the high-priced country. However, we have no means of reducing domestic prices; they ordinarily fall only in depressions. Furthermore, if they are high in terms of other currencies, it is largely due to the accidents of setting exchange rates in special postwar circumstances. Just this year France gained an additional advantage by devaluation. Hence, deflation here cannot be considered an acceptable solution. It would benefit neither us nor our competitors, and there is no reason we should accept a policy they would unhesitatingly reject.

Proposed Solutions

What is likely to result from this situation if no other solution can be found is a new drive for protectionism. Such a development would have serious repercussions throughout the Western world. Prosperity in most countries embodies large elements of cyclical instability, and any reversal of the postwar trend toward trade expansion might turn the investment cycle down.

Proposed solutions either provide inadequate relief or impose other disadvantages. After the recent British reduction of trade or exchange restrictions, there is not much more to be gained from such measures. The "Buy American" proposal is superficial; it would have little effect if countries receiving aid made offsetting shifts in the use of other funds at their disposal.

Cutting the aid program offers no simple solution. There can be little question about the continuing needs of underdeveloped countries, and political considerations have to be taken into account. As an alternative, part of the aid program might be turned over to other industrial countries. In either case, part of the reduction in our payments would be reflected in our exports, and recipient countries would be likely to divert some subsequent buying also. Our competitive disadvantage would be aggravated as repeat and replacement business shifted.

Last year, widely circulated rumors held that we were going to devalue the dollar by raising the price of gold. But changing the price of gold would accomplish nothing if other countries did the same. What is needed to change relative prices is a change in exchange rates. Any such adjustment would have to be negotiated, and the complexities of negotiation are inestimable.

Fortunately, this is not a matter of immediate urgency. If the problem is basic enough to require action, however, it would be desirable to make a start in a period of prosperity. After a general letdown, any proposed devaluation would represent a "beggar-thy-neighbor policy" and call forth reactions like those of the 1930's. As a prelude, a detailed, up-to-date analysis of relative prices might be undertaken to provide a reasonable basis for determining positions when the time comes. VLB

COOPERATIVE SAVING AND LENDING

The idea of people pooling their savings in order to lend to each other was conceived more than a century ago in Germany as a means of protecting the poor from unscrupulous moneylenders. From Germany, it spread throughout Europe and to many areas of Asia during the latter half of the nineteenth century. The credit cooperative (or credit union) movement reached North America by 1900, taking hold first in Canada and then in the United States. This country's first credit union was established in New Hampshire in 1909.

The greatest growth of credit cooperatives in the United States, however, has occurred in the past three decades. Since 1929, when there were only 974 such organizations with 265,000 members, credit unions have been increasing at an average rate of 660 new organizations a year. The rapid rise of these organizations in this period has made the United States the world's leading nation in cooperative lending.

Credit Cooperatives Today

Last year there were more than 19,000 credit unions in this country, with a total membership of 10.7 million persons. Total assets, which were $4.4 billion in 1958, have nearly doubled since 1954 and have risen ninefold since 1946.

All credit unions are chartered either by a state or the federal government and are supervised by the chartering agency to ensure financial stability of the organization. Nearly nine-tenths of all unions have assets privately bonded up to a maximum of $2 million. The federal government began chartering credit unions in 1934. In addition, all but four states have some type of credit union legislation. The 19,000 are almost equally divided between those with state charters and those with federal charters. In Illinois, however, nearly 90 percent of the unions are state-chartered and are supervised by the Department of Financial Institutions.

Credit union members come from all walks of life. However, all of the chapters are made up of persons associated through some common activity or bond, such as membership in an economic, social, or religious group. The major areas of organization are manufacturing (37 percent), government (14 percent), transportation and other public utilities (10 percent), educational institutions (6 percent), church groups (6 percent), trade (5 percent), and labor unions (5 percent). It is evident that wage and salary workers are the most numerous participants in credit unions; nearly three-fourths of all the unions in 1958 were organized by employee groups.

A greater proportion of the savings placed with these unions is borrowed by members than in most other countries. In 1958, the average loan amounted to 80 percent of the borrower's savings in his credit union, compared with only 64 percent in Canada and 62 percent in Germany, the second and third largest credit union nations. Credit unions here had nearly $3.2 billion in loans outstanding last year and $3.9 billion in savings.

Credit unions are forbidden by law to charge more than 1 percent a month on the unpaid balance of any loan, and many unions charge less than this amount. Unions are able to keep charges at a relatively low level because of: (1) the donated services of members, (2) the limited overhead expenses, and (3) the intimate knowledge of loan applicants.

Credit unions accounted for only a small fraction (7 percent) of total consumer instalment credit last year, but they have been the most rapidly growing lending agency in the country during the past decade. For example, their instalment credit loans (the predominant type of credit union loan) increased more than 400 percent to $2.5 billion between 1949 and 1958. Those of sales finance companies, the second fastest growing agency, rose by 250 percent.

Illinois — First in Credit Unions

Illinois has been a major credit union state since the 1930's. The first credit union appeared in the State shortly after the Illinois Credit Union Act was passed in 1925. By 1930, there were 50 such organizations. Since that time, Illinois credit unions have consistently accounted for 6 to 9 percent of the national total of credit unions, members, and assets.

Credit union development in Illinois, as in the nation, has accelerated in the postwar period. Total assets climbed more than 500 percent to $360 million between 1946 and 1958. In the same period, membership increased 150 percent to 825,000, and the number of unions rose from 784 to 1,636. The extent of growth in the State can be gleaned from the fact that one of every eight adults in the State is a member today.

In 1958, Illinois ranked first in total number of organizations and followed only California in total amount of savings. Savings averaged about $393 per member, compared with a national average of $366.

The state's unions have nearly $230 million in loans outstanding, a figure which exceeds the total assets of credit unions in every state except California and Michigan. Altogether, unions here made more than 626,000 loans in 1958. The average loan last year was $610.

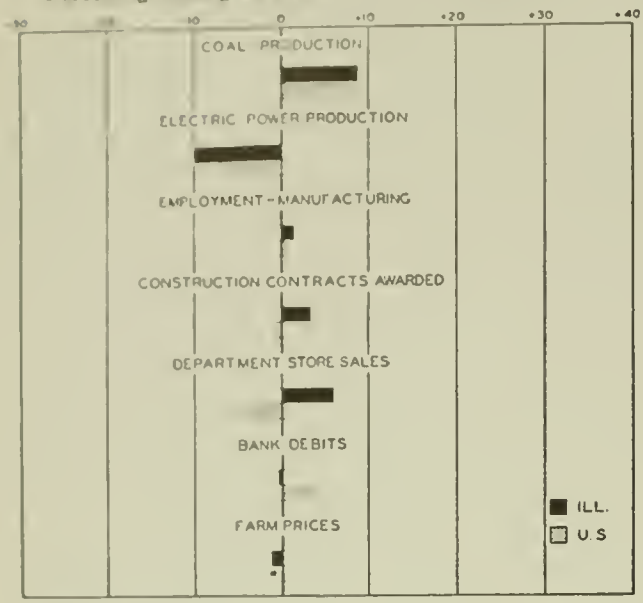
Credit unions in Illinois tend to be related to areas of industrialization rather than to population. Chicago, of course, leads the State in total number of unions, with 650. Following in order of number of unions are Decatur (63), Rockford (44), East St. Louis (43), Peoria (40), Danville (40), Rock Island-Moline (39), Champaign (34), and Springfield (30).

Although the average credit union had assets valued at $220,000 last year, there were 65 unions in the State with more than $1 million in assets. Six of the ten largest unions were in Chicago, but the largest was located in central Illinois. It was the Decatur-Wabash Railroad Employees Union, with nearly $14 million in assets and $12 million in loans. The United Air Lines Employees Union of Chicago was the leading organization in terms of membership, but ranked third in total assets.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1959, to September, 1959



*No change.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1959 (1947-49 =100)	Percentage change from Aug. 1959	Percentage change from Sept. 1958
Electric power[1]	227.8	−9.9	+4.3
Coal production[2]	83.1	+8.8	+6.1
Employment—manufacturing[3]	102.4[a]	+1.3	+3.7
Weekly earnings—manufacturing[3]	168.2[a, b]	−0.9	+6.6
Dept. store sales in Chicago[4]	122.0[c]	−3.9	+1.7
Consumer prices in Chicago[5]	129.2	+0.7	+1.4
Construction contracts awarded[6]	383.8	+3.3	+6.7
Bank debits[7]	194.9	−0.2	+4.6
Farm prices[8]	79.0	−1.2	−9.2
Life insurance sales (ordinary)[9]	276.3	−2.0	−4.0
Petroleum production[10]	119.9	+0.1	−0.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bk.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for August, 1959; comparisons relate to July, 1959, and August, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Sept. 1959	Percentage change from Aug. 1959	Percentage change from Sept. 1958
	Annual rate in billion $		
Personal income[1]	379.6[a]	− 0.1	+ 4.2
Manufacturing[1]			
Sales	355.2[a]	+ 1.4	+10.9
Inventories	51.8[a, b]	− 0.6	+ 5.3
New construction activity[1]			
Private residential	25.2	− 1.6	+20.3
Private nonresidential	17.2	− 4.9	+ 1.6
Total public	18.8	− 5.2	− 1.5
Foreign trade[1]			
Merchandise exports	16.8[c]	− 4.9	+ 0.0
Merchandise imports	14.3[c]	− 3.7	+23.8
Excess of exports	2.5[c]	−11.4	−52.6
Consumer credit outstanding[2]			
Total credit	48.4[b]	+ 1.0	+11.9
Instalment credit	37.5[b]	+ 1.2	+13.1
Business loans[2]	30.4[b]	+ 1.7	n.a.
Cash farm income[3]	30.9[c]	− 0.3	−22.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	148[a]	− 0.7	+ 8.0
Durable manufactures	158[a]	− 0.6	+ 9.0
Nondurable manufactures	145[a]	− 0.7	+ 9.0
Minerals	116[a]	− 0.9	− 5.7
Manufacturing employment[4]			
Production workers	98	+ 0.3	+ 3.2
Factory worker earnings[4]			
Average hours worked	101	− 0.2	+ 1.3
Average hourly earnings	166	+ 0.9	+ 3.3
Average weekly earnings	168	+ 0.7	+ 4.6
Construction contracts awarded[5]	309	− 0.8	− 4.9
Department store sales[2]	143[a]	− 4.0	+ 5.9
Consumer price index[4]	125	+ 0.3	+ 1.2
Wholesale prices[4]			
All commodities	120	+ 0.4	+ 0.4
Farm products	89	+ 2.1	− 4.5
Foods	108	+ 1.9	− 3.0
Other	128	0.0	+ 1.7
Farm prices[3]			
Received by farmers	88	0.0	− 6.4
Paid by farmers	119	0.0	+ 0.8
Parity ratio	80[d]	0.0	− 8.0

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for August, 1959; comparisons relate to July, 1959, and August, 1958. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 Oct. 31	Oct. 24	Oct. 17	Oct. 10	Oct. 3	1958 Nov. 1
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,344	1,350	1,329	1,294	1,267	1,465
Electric power by utilities	mil. of kw-hr	12,978	12,762	12,861	13,086	13,234	12,330
Motor vehicles (Wards)	number in thous.	118	134	158	142	128	120
Petroleum (daily avg.)	thous. bbl.	6,887	6,875	6,839	6,809	6,825	6,911
Steel	1947-49=100	22	22	21	21	21	117
Freight carloadings	thous. of cars	588	607	581	559	573	674
Department store sales	1947-49=100	145	150	160	151	143	136
Commodity prices, wholesale:							
All commodities	1947-49=100	119.3	119.1	119.2	119.2	119.2	119.6[a]
Other than farm products and foods	1947-49=100	128.6	128.5	128.5	128.5	128.4	128.4[a]
22 commodities	1947-49=100	86.9	85.9	85.6	85.6	86.0	86.8
Finance:							
Business loans	mil. of dol.	29,516	29,548	29,704	29,509	29,479	n.a.
Failures, industrial and commercial	number	273	250	252	274	224	299

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for October, 1958. n.a. Not available.

RECENT ECONOMIC CHANGES

Decline in GNP

The seasonally adjusted annual rate of gross national product fell to $481.0 billion in the third quarter, according to preliminary estimates made by the President's Council of Economic Advisers. The third-period rate represented a decline of $3.5 billion in the value of the nation's output of goods and services from the second-quarter record high. After adjustment for price changes the decrease was even greater; in terms of 1958 prices, GNP fell from $477.8 billion in the spring quarter to $472.0 billion in the July-September period.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	*3rd Qtr.** *1959*	*2nd Qtr.* *1959*	*3rd Qtr.* *1958*
Gross national product	481.0	484.5	444.0
Personal consumption	313.5	311.2	294.4
Durable goods	43.8	44.1	37.1
Nondurable goods	148.2	147.7	143.6
Services	121.5	119.4	115.7
Domestic investment	69.0	77.5	54.2
New construction	41.0	41.0	35.4
Producers' durable equipment	27.0	26.0	22.2
Change in business inventories	1.0	10.4	−3.4
Nonfarm inventories only	.2	9.8	−4.5
Foreign investment	−.5	−1.8	1.6
Government purchases	99.0	97.7	93.8
INCOME AND SAVINGS			
National income	n.a.	403.9	369.5
Personal income	381.0	381.1	363.4
Disposable personal income	335.2	335.3	320.4
Personal saving	21.7	24.1	26.0

* Preliminary estimates by Council of Economic Advisers.

The reduction in GNP was accounted for by a rapid depletion of steel and related inventories. This was in contrast to the sharp accumulation which occurred in the preceding period in anticipation of the steel strike. The annual rate of accumulation of nonfarm inventories was off $9.6 billion during the summer quarter.

As can be seen in the accompanying table, those portions of GNP represented by final demand — consumption, fixed investment, and government purchasing — showed some further expansion during the third quarter. The advances in some of these categories, however, was not as great as had been expected.

Agricultural Production Expands

Farm production this year has been running slightly ahead of 1958. Based on data available as of mid-October, the Agriculture Department reported its index of farm production is expected to be 125 percent of the 1947-49 average for 1959, compared with 124 percent last year and 114 percent in both 1956 and 1957. Almost all of this year's advance has resulted from a substantial increase in the number of livestock on farms. Crop production was maintained at the high levels reached in 1958 when output jumped more than 10 percent.

The increases in production brought sharply lower prices for some products, particularly hogs, broilers, and eggs. By mid-October the index of prices received by farmers for all products had fallen to 235 percent of the 1910-14 average, 14 points under a year ago. Cash marketing receipts from livestock and products in 1959 are below last year's figures, but receipts from crop marketings are about equal to 1958. These changes combined to drop net income of farm proprietors back to the 1955-57 plateau. In 1958 net income rose to over $14 billion. During 1959, however, a decline of about $1 billion in the annual rate of net income was registered in each of the first two quarters. In the third quarter a further drop of $1.8 billion was recorded as the annual rate fell to $10.3 billion. As a percentage of the total national income, income originating in agriculture, including earnings of farm laborers, is expected to fall to 4 percent this year, compared with 5 percent in 1958 and 4.5 percent the year before.

Corporate Profits and National Income

The stimulation of economic activity caused by anticipatory purchasing of primary metals and their products raised corporate profits and national income to new highs in the second quarter. Corporate profits rose to annual rates of $52.6 billion before taxes and $27.0 billion after taxes. After adjustment for the effect of price changes on the dollar value of inventories, corporate profits were at an annual rate of $51.0 billion in the spring quarter, compared with $45.5 billion in the first three months of 1959 and $33.8 billion in the second quarter of last year. The spring-quarter advance was centered in durable goods manufacturing industries where before-tax profits rose more than $4 billion.

National income moved up $14.5 billion to an annual rate of $403.9 billion in the second quarter. Although corporate profits, and hence, total national income figures are not yet available for the third period, signs of a letdown can be noted in data that are available. Incomes from all sources other than corporate profits showed a slight over-all decline of $700 million to $352.2 billion at annual rates in the third period. This compares with advances of $9.0 billion in the second quarter and $7.0 billion in the first three months of this year.

The industry pattern of nonfarm income reflects more clearly the decline in earnings in strike-affected industries. The primary metals manufacturing, mining, and transportation industries accounted for nearly $27 billion, at annual rates, of the total all-industry payroll during the second quarter. In the subsequent three months, however, the payments by these industries fell $3 billion.

Consumer Prices

Prices of consumer goods and services in the United States, as measured by the Labor Department's consumer price index, rose 0.3 percent in September to a record 125.2 percent of the 1947-49 average. The new high represented an increase of 1.2 percent from September of last year.

All major groups of goods and services, with the exception of transportation, contributed to the latest advance. Food and housing prices each matched the over-all gain of 0.3 percent, and prices of apparel rose 0.9 percent during September. Medical and personal care, reading and recreation, and other commodities and services also experienced price increases during the month. In the transportation group, declines of 1 percent in dealers' selling prices for new cars and 0.8 percent in gasoline prices more than offset an advance in used car prices. Compared with a year ago, however, transportation and medical care prices have shown the largest increases, whereas food prices have fallen 1.3 percent.

WHAT DO WE MEAN BY "RESEARCH AND DEVELOPMENT"?*

DAVID NOVICK, Cost Analysis Department, The RAND Corporation

It has become fashionable to speak of the need for more research and development. There has recently been a clamor for more military activity in this field so that we may be better able to protect ourselves. In business it has become the thing to do. There is a seemingly blind belief that by doing more research we will outrun our international competitors and make larger profits.

Numerous studies emphasize the recent marked expansion in R&D effort. Changes in budgetary practice by the Department of Defense have given new sparkle to the rate of growth in this activity; we now speak glowingly of the $3.7 billion budgeted for fiscal 1960 when comparing it with $650 million identifiable as military R&D in fiscal 1950. In the same way we talk of business expansion of R&D from less than $200 million in 1930 to $1 billion several years ago, and to $6 billion today.

Just *how are* the dollars being spent? Are we really spending *more* dollars on essential R&D, or are we merely reclassifying traditional outlays? What is the real nature of the changes they promise? Only with such knowledge can we decide whether we are doing the right things and in the proper quantities.

Perhaps the most revealing statement that has been offered is that of Dr. J. A. Hutcheson, vice president of Westinghouse Electric, who in announcing the company's $185 million 1959 budget for R&D pointed out that to measure research spending as a percentage of sales is meaningless unless the objectives are defined and the figures broken down. He classified his company's proposed program as 2 percent for research not connected in any way with current products but promising for the long-range future, 3 percent for long-range development programs related to products the company will be making five to ten years from now, 6 percent for new knowledge we know we need based on past research, 10 percent for standard product development, and 79 percent for development of equipment to customers' orders. For most firms, general statements of X million dollars for R&D are even more inappropriate than in the Westinghouse case as a measure of effort applied to advancing science.

There is such great diversity in the resources consumed and in the things produced by the many industrial firms and government agencies which carry on research, development, test, and evaluation that it would be surprising if common accounting practices were followed to identify them. Since there is no common practice in establishing the basis for these charges, it is difficult to say whether or not the figure commonly bandied about for 1959, $10 billion for R&D, is a significant measure of national effort. All that one can say with certainty is that the present situation is confused and confusing.

Growth of R&D Expenditures

The best estimates available show that there has been a tremendous growth in R&D. Between 1930 and 1940, outlays doubled. In the next year, when defense spending for R&D became significant, total R&D rose from $345 million to $900 million. By 1950, R&D was three times its 1941 level, and since then it has more than tripled again. Thus our present $10 billion for R&D are sixty times greater than they were thirty years ago.

There is some necessary uncertainty about any such portrayal of growth, since the data are derived from various sources and are not entirely comparable. The jump from 1940 to 1941 (see chart), although no doubt largely the result of new programs, may to some extent reflect a statistical discontinuity. The break in trend after 1954 reflects the fact that the Revenue Act of 1954 gave corporations liberty to "expense" R&D outlays.

While the large growth in R&D cannot all be attributed to statistical delusion, there is much room for doubt as to what these data actually indicate. It is evident that price change tends to overstate the growth as measured by expenditures. To adjust properly for price changes, an index based on a combination of salaries of research personnel and the hardware used in R&D would have to be used. In the absence of such an index, the series shown was adjusted by prices for producers' durable equipment. The results given by other available adjustment factors are not widely divergent. All roughly cut the growth of R&D expenditures in half. Thus the sixty-fold increase between 1930 and 1958 is reduced to a twenty-five to thirty fold increase in real terms.

Another measure of the growth in R&D is the change in the number of scientists and engineers engaged in research. This measure has the advantage of not being influenced by price changes and also of being unaffected by variations in accounting procedures. It has the further advantage (or disadvantage) of not reflecting changes in the hardware cost of R&D. From 1941 to 1952 the number of research engineers and scientists doubled — a somewhat slower growth than that of adjusted R&D outlays.

All of the available statistical data demonstrates that one of the difficulties in interpreting R&D data is that we are not certain of what has been measured. While the separation of basic research from applied research and development is a step toward making these data more meaningful, the definition of basic research also presents some problems. For example, the cost of censuses is included in the over-all federal government estimates. To be sure, census taking is an important research undertaking but it is substantially different from many other kinds of research and is just one more indication of the activities in R&D. Hence, we can only be very dubious about the usefulness of the existing data as meaningful guides for allocation decisions in the research area.

Science, Research, and Development

A major difficulty in measuring R&D activity, which neither the expenditure nor the personnel data can take account of, is the ambiguity of terms. Although we assume that we know what we mean when speaking of science, basic research, applied research, development, test, and evaluation, it is not likely that the meaning would be the same to a nuclear physicist or a marketing expert. We are not likely to identify the effort of every doctor treating an individual case of cancer as research even though it adds significantly to our knowledge, since the medical profession calls this "practice" rather than "research." But we include university fellowships and marketing research wherever it occurs, since these are called research.

The line of demarcation between development and production is thin and elusive, and may often be drawn in terms of company policy rather than any clear-cut definition. Some of the "growth" may be the result of the new respectability which R&D has attained, which

* Presented at the annual meeting of the Associated University Bureaus of Business and Economic Research, Allerton House, Monticello, Illinois, October 28, 1959.

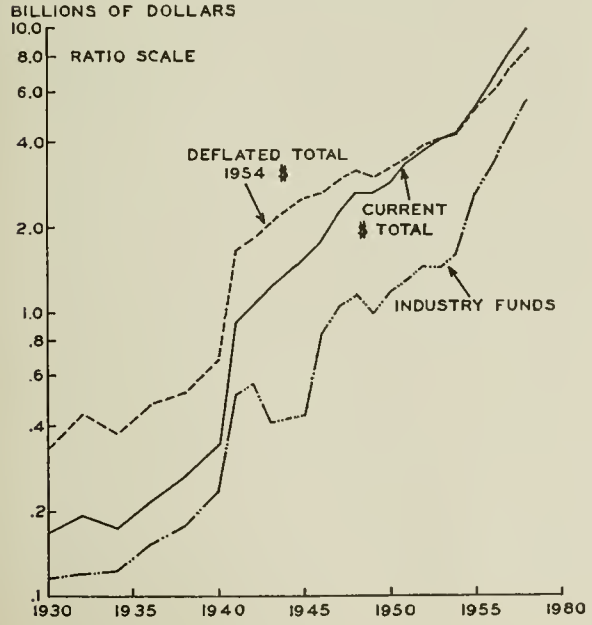
probably has shifted into R&D some activities which were previously under some other classification. A literature search establishes clearly why an individual who considers himself a scientist may be described by others as an engineer, a technician, or even just a businessman. Only the *Dictionary of Contemporary American Usage* need be quoted here:

Research has become very popular in the United States since the outbreak of World War II. As Henry D. Smyth has observed, the idea that the object of research is new knowledge does not seem to be widely understood and "a schoolboy looking up the meaning of a word in the dictionary is now said to be doing research." Indeed it has been debased even further. *Research* is frequently used to describe reading by those to whom reading, apparently, is a recherché activity and for many a graduate student it is a euphemism for wholesale plagiarism.

In attempting a description of the subject area, science seems the obvious starting point since it is the spring from which flow R&D in any and all of their ramifications. Much of our confusion arises from lack of recognition of the time and evolution factors which characterize the changes as the flow proceeds from the spring of science to the ocean of everyday application. The "hare-brained ideas" of one period are the "sound" practical and useful tools of a later period. Although we are not now likely to refer to Darwin, Einstein, or Newton as "hare-brained," their original work has the identifying mark of seeking understanding of the universe and not particular uses for the principles propounded.

In this context we can say science seeks an understanding of nature, and the appliers use it to alter or change nature. Hence, lack of knowing probable application seems an appropriate starting point. A look at the classifications now used suggests that basic research is everyone's starting point and is characterized as *promise* for the long-range future. As we go down the lists of activities labeled research, application becomes more important, whether for development of custom-tailored equipment, pilot plant research, solving technical problems in manufacture and maintenance of existing products, sales research, or commercialization. Application, and the degree of certainty assumed in attaining it, seems to be a likely standard for setting up our classification.

RESEARCH AND DEVELOPMENT EXPENDITURES



The reason for using this approach is to facilitate the setting of milestones from which we may better determine where we are in the R&D process and to provide a better framework for making decisions. Although our R&D outlays have risen from $200 million in 1930 to $10 billion in 1958, it may very well be that practically all of this increase is in the application of principles established thirty or more years ago and that the effort devoted to the search for BIG IDEAS is not significantly larger today than in 1930. We still have to determine whether we are putting enough into the areas where application is uncertain, and especially whether our method of allocation and management indicates the kind of promise for the future we would like to have.

Steps in Creating New Products

A recent addition to commonplace statements is: "In lead time, that is, from basic concept to operations, the Soviet Union is way ahead of us. It takes us 10 years but the Soviet Union does it in about 5 years." This seems simple and straightforward until one raises the question of what each country accomplishes in these markedly different periods. In this case it is complicated by the frequently voiced corollaries: "We know that we are ahead of the USSR in basic research and we are far ahead of them in production." Taken together, these statements imply that the Soviet is ahead of us only in administering the implementing actions and that this is the significant difference. I wonder if that is the case.

Like most other Americans, I know very little about the USSR. However, articles in magazines and newspapers, and friends who have been in Russia or talked to Russian visitors in the last few years, lead me to believe that we are not ahead of them in production techniques — probably the easier of the two to appraise — and are not significantly ahead in basic research.

It seems to me that, on a comparable basis, lead time in the USSR is just about the same as in the US. If they are ahead in getting final product, it is because they (1) probably have a more direct approach, placing more emphasis on early application; (2) are more willing to gamble either on resource cost or on performance; (3) seem to freeze design and make fewer changes once a decision to produce has been made; and (4) have continuity in program and personnel. If these are in fact the practices in the USSR, they indeed have shortened lead time. We tend to seek full understanding of a principle before going all out for it. Although we gambled on both resource cost and product performance in attaining our World War II achievements, we have been cautious since 1945. Our desire for perfection and certainty also leads to continual modifications in equipment even after a decision has been made to procure for operation.

Lead time in a physical sense is a real thing and is not easily shortened. The changes which the USSR seemingly has introduced are both intellectual and administrative and are available to those who are willing to take risks. Understandingly or not, the Russians apparently push ahead — steadily and continuously; we seek assurance before making our commitments and proceed in a start-then-stop and stop-then-start manner.

To get this difference more clearly in mind we must better understand (1) what is done in each of the separate steps we lump in R&D: (2) what can be expected as the product of each stage; and (3) probably most importantly, the degree of uncertainty or risk associated with each level of expectation. To that end the following schema attempts to show the steps, activities, and promises of R&D:

Step I. Basic Experimental Research and Development. Understanding of the universe and organization of knowledge about it are sought. Its promise is great but application to specific purposes and the possibility of success is highly uncertain.

Step II. Applied Research, Advanced Development, and Basic Evaluation and Testing. Specific potentials are identified with a view to developing devices or methods to use the new general knowledge obtained in Step I. Application or usefulness is identified but the economy, efficiency, and acceptability of the proposals remain uncertain. Promise is for great new things.

Step III. Product Development, Testing, and Evaluation and Introduction. Specific devices or methods appear as likely solutions but must be brought reasonably close to final application to determine effectiveness, economy, and acceptability. Do-ability has been established and major advances are promised.

Step IV. Product Application Research, Applied Testing and Evaluation. New uses and applications or modifications of uses are sought for existing methods, products, or components. Work may result in substantial benefits to users or producers. Some success is reasonably assured since it is evolutionary rather than revolutionary.

One reason the Step I, or Brave New World, outlay is small is that the type of activity is normally low in its resource demands. Only occasionally, as in the newly approved Project "M" linear accelerator at Stanford, do expenditures reach the multimillion dollar level. Much of our science in this sense has been imported — chiefly from Europe — either as principles or as scientists who developed their ideas here. The bulge in our scientific discoveries in the last 25 years is probably more the result of European scientists coming to this country to escape totalitarianism than of any real expansion in our indigenous capability. Einstein, von Neumann, Teller are a few of the scientists who have been transplants from Europe. There is no assurance that we have yet developed here the essential "climate" for basic research.

Step II is three times Step I according to my guess. It is still small for the reasons applied to Step I, but becomes larger because in general more people are available and capable for this type of work and because more elaborate equipment and methods can be used. More people become available as guidance and direction are more easily established. Although the equipment in many cases is simple relative to that involved in subsequent steps, it is likely to be more complex, used in larger quantity, and more costly than that used in Step I. Illustrative was the estimate in 1940 that $100,000 would be required to attempt the first nuclear chain reaction. Billions were required for Step III in nuclear fission.

The relationship between Steps II and III in the atomic development is representative of the general military interaction. In the atomic case, and in many modern weapon developments, the size of the resource demands becomes spectacular because of the time concentration. When time pressures are not so great, the build-up is more gradual and over the years involved in a leisurely approach many of the problems in one development are solved as part of other researches.

Most research expenditures are in Step IV for a variety of reasons. First and foremost is the reasonable assurance of success since the changes sought are small order variations in proven methods, devices, and approaches. Second, because so much is already known, very large numbers of people are available for and interested in this kind of work. Third, in most activities involved in equipment, cosmetics, or social services, whether production, management, or marketing, making improvements and changes of this kind is the essence of day-to-day business or professional activity.

Need for Reappraisal

Identification based on present practices makes it difficult to measure research in any meaningful way. We regard all research as good and impute to all of it the value it has achieved when identified with the Great Researchers — Darwin, Einstein, Newton, and so on. Although the available data do not permit quantitative analysis in specific terms, it is my guess that our $10 billion probably is distributed as follows:

Step	*Promise*	*Guessed distribution*
I	Brave New World	$ 100,000,000
II	Possible use of new discovery	300,000,000
III	Application of new knowledge	2,600,000,000
IV	Improved use of existing knowledge	7,000,000,000

This may well be disturbing to those who view the world's future as a struggle for scientific achievement. Assuming that something like $400 million is what we now are putting into the search for new knowledge with dramatic and exciting implications, and adjusting this for price change and Big Wheel and Big Deal administrative practices, a basic question is raised as to how much more we really are doing now than we were ten or twenty years ago.

For the aggregate measurement we can take or leave the $10 billion cited for 1959 and the changes in such totals over the years. As now compiled it is a dubious measure of national resources allocated to basic improvements to the United States of A.D. 1980 or 2000. Classification problems like those occasioned by the Internal Revenue Act of 1954 and by the Department of Defense budget change for fiscal 1960 overshadow the validity of specific dollar statements over any period of time.

We do know R&D expenditure is going up, perhaps largely because we think it should be going up. We do not know how much of it represents needed or desired contributions to the Brave New World and how much a reclassification of activities heretofore identified as manufacturing and education in other accounts. Whether or not the expansion carries the magic we want to impute to it is not easy to ascertain.

In the last half-century there have been four major factors in scientific expansion in the United States: World War I, World War II, the Cold War, and the transplanting of European scientists to this country. Whether or not these provide sufficient basis for success just by our putting in more dollars is not at all clear, particularly if most of the increase in expenditures is merely reclassification in response to a new fashion.

If we are to make the most effective allocation of resources to R&D, a real research effort and one basic in its approach must be undertaken. The important issue is, Are we putting enough effort into research aimed at the long-range future, particularly that which goes beyond what we now visualize as characteristic of the products we can identify as those we shall be making five to ten years from now? Perhaps as is so often the case, the nation must first determine its objectives and policy. On that basis we may then be able, first, to establish meaningful classifications of research activities and measurements of the factors in their rate of growth and, second, to determine the allocation of national resources which is being made and should be made to these varying and distinctive types of specialized activities.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Intercity Trucking

According to the American Trucking Association, the volume of intercity freight hauled by truck during the second quarter of 1959 amounted to 93 million tons. This represents an increase of 21 percent over the same quarter of 1958. This gain in tonnage raised the American Trucking Association's second-quarter truck tonnage index to an all-time high of 210, an increase of 28 points over the previous high recorded in 1956.

General freight carriers, accounting for almost half of the total tonnage, reported an increase of 26 percent. Liquid petroleum carriers, the second largest group with almost 25 percent of total tonnage, showed a rise of 9 percent over the second quarter of 1958. Motor vehicle carriers showed gains of 72 percent, and heavy machinery haulers experienced a 52 percent advance. Carriers of building materials, the only group to report decreased tonnage from the second quarter of 1958, were down 23 percent.

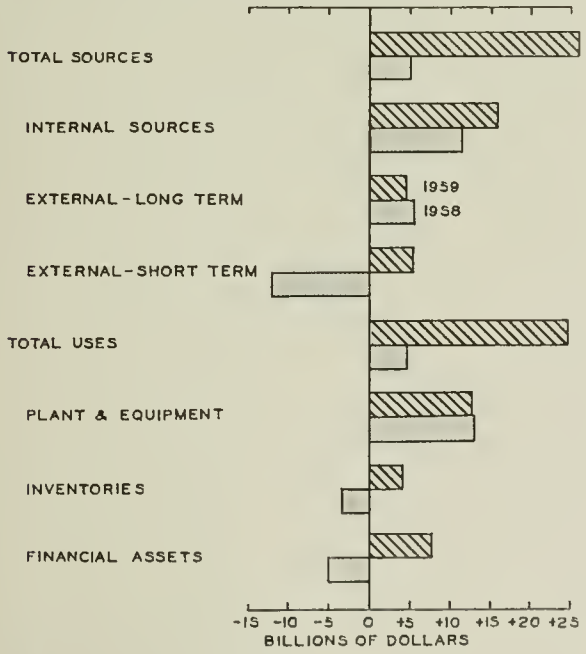
Changes in Federal Debt Outstanding

Data released in the October issue of the *Treasury Bulletin* show that the total federal debt outstanding climbed from $275.6 billion in July, 1958, to $288.8 billion in July, 1959. In addition to this increase, there has been a shift in the composition of ownership and the maturity structure of the debt.

In July, 1959, 51 percent of the total debt was held by private nonbank investors such as individuals, nonfinancial corporations, and insurance companies, whereas in July, 1958, the holdings of such investors were about 47 percent. At the same time, the share of the federal debt held by commercial banks declined 3 percentage points to 21 percent, and that of the federal government investment accounts decreased to 19 percent. On the other hand, Federal Reserve holdings increased slightly.

The maturity structure of the interest-bearing public debt has shifted more toward shorter-term securities. The average length of maturity was 4 years and 5 months in July, 1959, compared with 5 years and 2 months in July, 1958. The amount of outstanding securities due within one year increased from 41 percent in July, 1958, to 43 percent in July, 1959, and the proportion of the securities maturing in one to five years rose 6 percentage points to 32 percent over the same period. The largest percentage decrease in security holdings was in those where maturity was longer than ten years.

SOURCES AND USES OF CORPORATE FUNDS
1st HALF, 1958, AND 1st HALF, 1959



Source: U.S. Department of Commerce, *Survey of Current Business*, October, 1959.

Mail Sent Electronically

Business Week recently reported that Western Union and the Post Office Department are planning to bring facsimile transmission systems into public use. In facsimile transmission, an electronic device scans the printed material and picks up a picture. This electronic picture is transmitted across country by wire or microwave relay and then is reproduced on sensitive paper at the other end. Such systems have been available for some time to business firms through facilities rented from Western Union.

Beginning in December, 1959, Western Union plans to make facsimile transmission available to the general public by linking New York, Washington, Chicago, San Francisco, and Los Angeles into a facsimile network. Other cities will be joined later as demand warrants.

The Post Office Department has actually transmitted mail between Washington and Los Angeles by facsimile test equipment. A complete system, however, is still some five or more years away. Ultimately, the Post Office intends to develop a network of facsimile connections between 178 strategic cities serving nearly two-thirds of the national population. It is reported that with such a system typed or handwritten mail could be sent at an estimated cost no greater than the present airmail rate of 7 cents an ounce.

Business Financing

Corporations added nearly $25 billion to their physical and financial assets in the first half of 1959, a record rate for that part of the year, according to the October *Survey of Current Business*. In the first half of 1958, the net expansion was slightly less than $5 billion.

Inventory accumulation of $4 billion in the first six months of 1959 contrasts with liquidation of $3 billion in the same period a year ago. Financial assets took a similar swing, showing a net increase of nearly $8 billion in the first half of 1959 after a net decrease of $5 billion in the same part of 1958 (see chart). These two items account for practically all the change from 1958 to 1959.

Corporate funds in the first half of 1959 came mostly from internal sources; such sources provided $16 billion, or 61 percent of total funds. Corporations raised less than $5 billion of long-term funds from external sources, with stock and bond issues contributing about equally. Funds from external short-term sources increased to $5.5 billion in the first part of 1959, whereas during the first half of 1958 a reduction in short-term obligations amounting to $12 billion occurred.

LOCAL ILLINOIS DEVELOPMENTS

In September the major indexes of Illinois business showed diverse movements. Coal production increased 9 percent and construction contracts awarded rose 3 percent. The most important decline was in electric power production, which dropped 10 percent. Decreases of 4 percent and 2 percent, respectively, were experienced in seasonally adjusted department store sales in Chicago and life insurance sales during the month.

Chicago — A Big Natural Gas Market

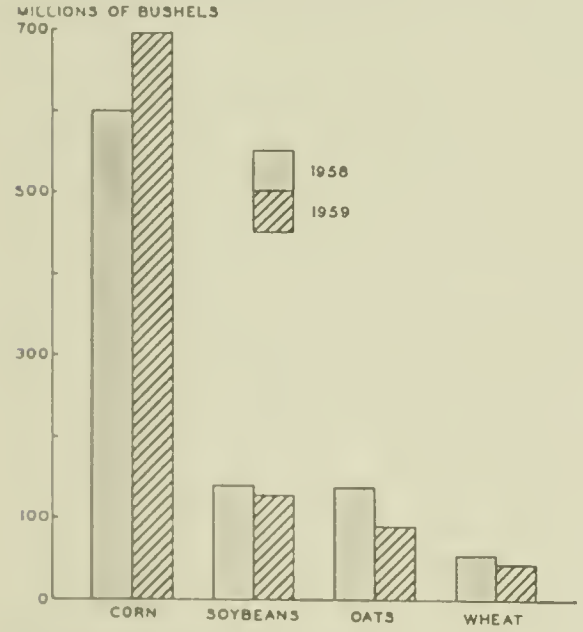
In October of this year, the Midwestern Gas Transmission Company completed a new 30-inch, 350-mile pipeline from Portland, Tennessee, to the Chicago area at a cost of nearly $48 million. This new system will be pumping about 260 million cubic feet of natural gas per day into the Chicago area by the end of the year. At the same time, the Northern Illinois Gas Company put into operation a new 22 inch, 140-mile pipeline between East Dubuque, Illinois, and the Chicago area at a cost of nearly $13 million. This will supply 50 million additional cubic feet of natural gas per day to the Chicago area.

These two new facilities will increase the Chicago area's natural gas supply by about one-fourth. Within three years, it is estimated that the peak flow of natural gas into the Chicago area will be at least 1,700 million cubic feet per day, as compared with a peak flow of about 1,300 million cubic feet per day at the present time.

Prospective Crop Yields

According to the Illinois Cooperative Crop Reporting Service, Illinois has a prospective corn crop in 1959 amounting to 690 million bushels. This would exceed the harvest of a year ago by nearly 100 million bushels, thus setting a new record and becoming the first Illinois corn crop to exceed 600 million bushels (see chart). The great advance in corn production is due entirely to an increase in acreage from 8.7 million acres in 1958 to 10.2 million acres in 1959.

PRODUCTION OF FOUR PRINCIPAL CROPS IN 1958 AND 1959



* Preliminary estimates
Source: Illinois Cooperative Crop Reporting Service.

The 1959 soybean crop is now estimated at 127 million bushels, a decline of nearly 10 percent from last year's record high. The prospective oat production is estimated at about 90 million bushels, which is 35 percent below the 1958 yield. This year's wheat crop is expected to be nearly 43 million bushels, as compared with 54 million bushels in 1958.

It is estimated that the northern fourth of the State will produce about 34 percent of the state's 1959 corn crop and 57 percent of the oat production. The southern half should account for nearly 70 percent of the state's wheat production and the central region is expected to produce about 70 percent of the soybean crop.

Average Weekly Earnings

Average weekly earnings in manufacturing industries in Illinois amounted to $96.74 during the first six months of 1959, compared with $87.87 in the first half of 1958. This increase of $8.87 reflects gains of $10.64 per week in durable goods manufacturing and $5.23 per week in nondurable goods production. Workers in the durable goods industries averaged $100.04 per week in the first half of 1959, while those in the nondurable goods industries averaged $90.43 per week.

The advance in average weekly earnings was due to significant increases both in working hours and in hourly earnings. Average weekly hours worked rose from 38.6 in February, 1958, to 41.3 in June, 1959. Average hourly earnings rose from $2.25 in January, 1958, to $2.39 in June, 1959.

Average weekly earnings vary widely among the different manufacturing industries. In June, 1959, workers in the primary metal industries and in petroleum refining and related industries had the highest average weekly earnings, amounting to $119.86 and $115.39 respectively. At the same time, workers in the apparel and other finished textile products industries earned an average of only $59.00 per week, and workers in the leather and leather products industries received an average of $66.29 per week.

Chicago Improvements

The Department of City Planning of Chicago has prepared an outline of a capital improvement program requiring the expenditure of $751 million on public improvements in Chicago from 1959 through 1963. About $196 million will be spent by the end of 1959.

The plan calls for about $320 million, or 43 percent of the total, to be spent on improvements of streets, bridges, viaducts, and expressways. Chicago's three airports are to receive $122 million, of which 93 percent will be used to develop O'Hare-Chicago International Airport. Other projects in the plan include sewer and filtration plant construction, extension of water mains, and improvements in public buildings and park facilities.

In addition to the city projects, the capital improvements program describes the planned construction projects of seventeen governmental agencies other than the city of Chicago, which will affect the area. During the next five years, projects scheduled by the Chicago Housing Authority, the Chicago Land Clearance Commission, and the Community Conservation Board will cost about $350 million, and the other fourteen agencies have scheduled programs costing about $838 million. Thus the total programmed for the Chicago area by governmental agencies other than the city of Chicago amounts to $1,188 million.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1959

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$48,136[a]	1,262,719[a]	$502,108[a]		$17,035[a]	$15,970[a]
Percentage change from Aug., 1959	+14.6	+3.0	n.a.	+6	−0.2	+11.9
Percentage change from Sept., 1958	+54.1	+11.1	+0.9	+2	+4.6	+8.8
NORTHERN ILLINOIS						
Chicago	$34,033	906,636	$359,175		$15,528	$14,024
Percentage change from Aug., 1959	+10.7	+4.5	n.a.	+7	−0.7	+14.0
Percentage change from Sept., 1958	+69.1	+7.4	−0.4	+2	+4.2	+9.8
Aurora	$ 901	n.a.	$ 8,469		$ 83	$ 144
Percentage change from Aug., 1959	+47.0		n.a.	+2	−1.9	−3.5
Percentage change from Sept., 1958	+3.8		+5.1	+5	+18.6	−0.0
Elgin	$ 562	n.a.	$ 5,816		$ 50	$ 87
Percentage change from Aug., 1959	+24.6		n.a.	n.a.	−9.5	−29.0
Percentage change from Sept., 1958	+72.4		+1.3		+12.0	−1.5
Joliet	$ 874	n.a.	$10,035		$ 89	$ 103
Percentage change from Aug., 1959	+73.1		n.a.	+8	+0.9	+10.0
Percentage change from Sept., 1958	+48.1		+9.3	+7	+13.1	+21.4
Kankakee	$ 264	n.a.	$ 4,823		n.a.	$ 62
Percentage change from Aug., 1959	+175.0		n.a.	n.a.		+15.0
Percentage change from Sept., 1958	−20.7		+7.8			+8.1
Rock Island-Moline	$1,976	26,914	$12,228		$ 116[b]	$ 173
Percentage change from Aug., 1959	+108.7	−10.0	n.a.	n.a.	+1.1	+26.1
Percentage change from Sept., 1958	+59.0	+4.0	+18.5		+12.1	+19.6
Rockford	$1,381	53,344[c]	$16,552		$ 196	$ 210
Percentage change from Aug., 1959	−71.4	+6.6	n.a.	−9[c]	−0.7	−0.9
Percentage change from Sept., 1958	+27.6	+20.1	+10.8	−1[c]	+14.4	+1.7
CENTRAL ILLINOIS						
Bloomington	$ 375	9,675	$ 5,056		$ 80	$ 110
Percentage change from Aug., 1959	+2.7	−2.2	n.a.	n.a.	+9.4	+23.1
Percentage change from Sept., 1958	+120.6	+17.5	−1.9		+12.1	+11.4
Champaign-Urbana	$ 663	16,127	$ 6,638		$ 85	$ 110
Percentage change from Aug., 1959	+84.2	+3.6	n.a.	n.a.	+15.7	+26.4
Percentage change from Sept., 1958	+107.2	+25.9	−7.4		+15.3	+4.7
Danville	$ 268	15,592	$ 5,797		$ 53	$ 66
Percentage change from Aug., 1959	+65.4	−0.4	n.a.	−8	+12.1	−8.2
Percentage change from Sept., 1958	−11.3	+14.9	+0.3	+2	+7.9	+1.1
Decatur	$ 417	40,377	$10,616		$ 126	$ 115
Percentage change from Aug., 1959	−24.3	+5.6	n.a.	+6[c]	+9.7	−3.9
Percentage change from Sept., 1958	−50.4	+13.6	−4.5	0[c]	+3.1	−11.5
Galesburg	$2,746	10,814	$ 4,428		n.a.	$ 43
Percentage change from Aug., 1959	+853.5	+7.7	n.a.	n.a.		+1.5
Percentage change from Sept., 1958	+521.3	+13.0	+0.9			−9.0
Peoria	$ 780	68,587[c]	$16,730		$ 244	$ 259
Percentage change from Aug., 1959	+52.6	−0.2	n.a.	−2[c]	+7.6	−7.9
Percentage change from Sept., 1958	−76.9	+27.1	+6.6	+3[c]	+3.3	−1.0
Quincy	$ 205	13,455	$ 5,077		$ 48	$ 71
Percentage change from Aug., 1959	+15.2	−0.9	n.a.	−2	+5.1	+15.4
Percentage change from Sept., 1958	−13.1	+30.4	+7.2	−9	+6.3	+1.3
Springfield	$2,297	44,063[c]	$12,686		$ 149	$ 242
Percentage change from Aug., 1959	+70.4	−8.7	n.a.	−2[c]	+13.3	−20.7
Percentage change from Sept., 1958	+340.9	+17.0	−2.6	+3[c]	+16.3	−5.1
SOUTHERN ILLINOIS						
East St. Louis	$ 46	18,017	$ 8,888		$ 141	$ 71
Percentage change from Aug., 1959	−69.3	−0.5	n.a.	n.a.	+2.5	+5.2
Percentage change from Sept., 1958	−78.7	+18.5	+5.0		−9.4	+6.2
Alton	$ 114	25,000	$ 4,823		$ 48	$ 34
Percentage change from Aug., 1959	−27.8	−11.4	n.a.	n.a.	+7.8	+5.7
Percentage change from Sept., 1958	+16.3	+72.2	+9.4		+12.6	+2.2
Belleville	$ 234	14,117	$ 4,271		n.a.	$ 44
Percentage change from Aug., 1959	−9.0	+11.3	n.a.	n.a.		−2.6
Percentage change from Sept., 1958	+47.2	+27.5	−3.1			−2.6

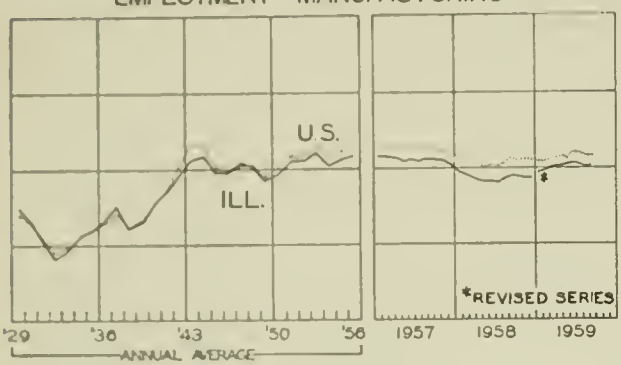
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for August, 1959. Comparisons relate to July, 1959, and August, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending September 18, 1959, and September 19, 1958.

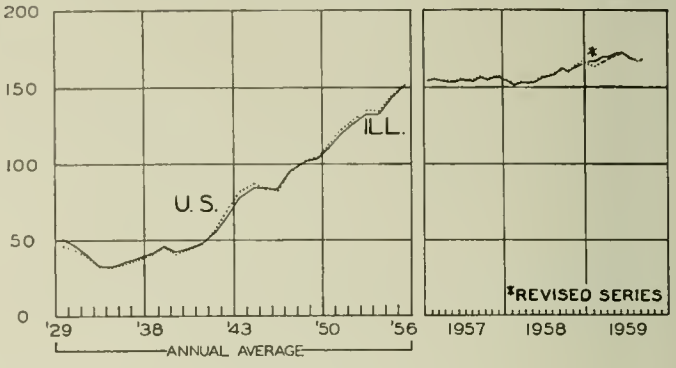
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

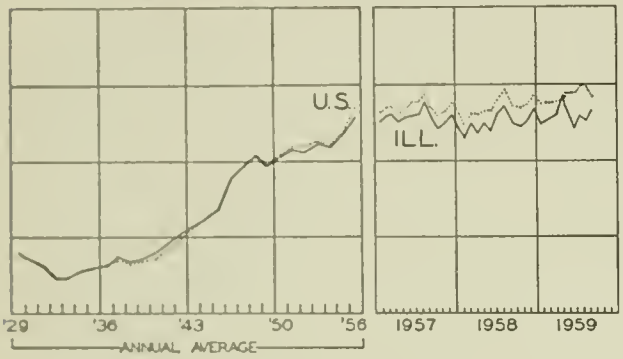
EMPLOYMENT MANUFACTURING



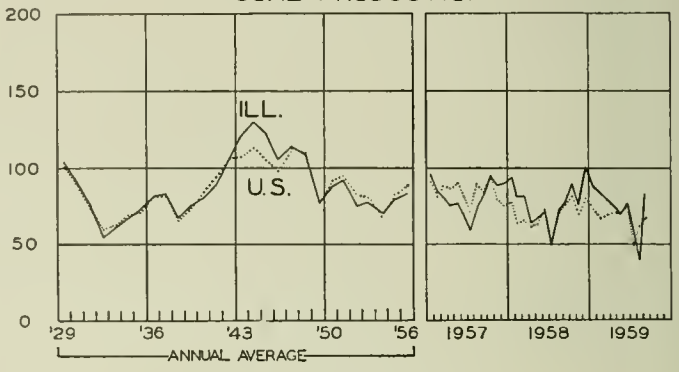
AVERAGE WEEKLY EARNINGS — MANUFACTURING



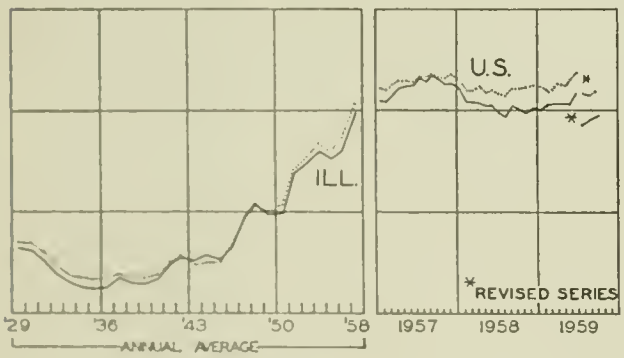
DEPARTMENT STORE SALES



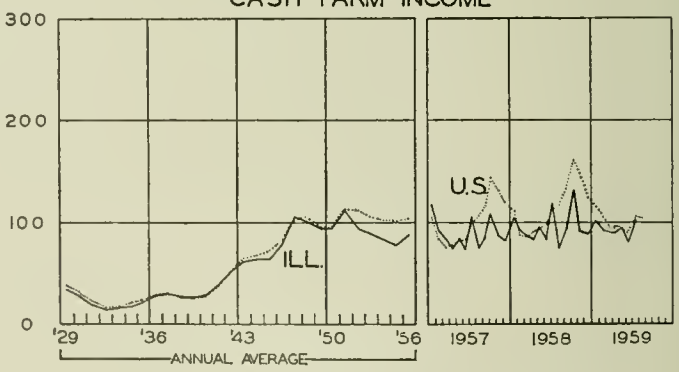
COAL PRODUCTION



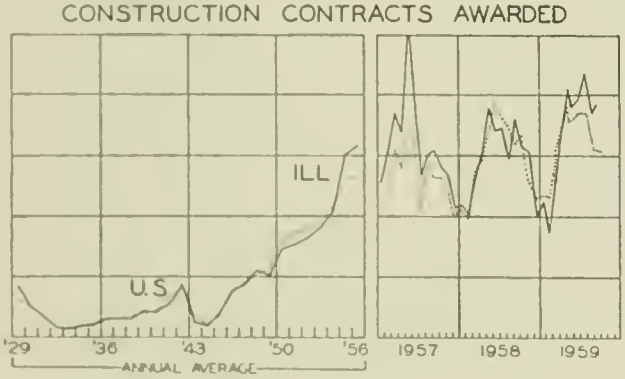
BUSINESS LOANS



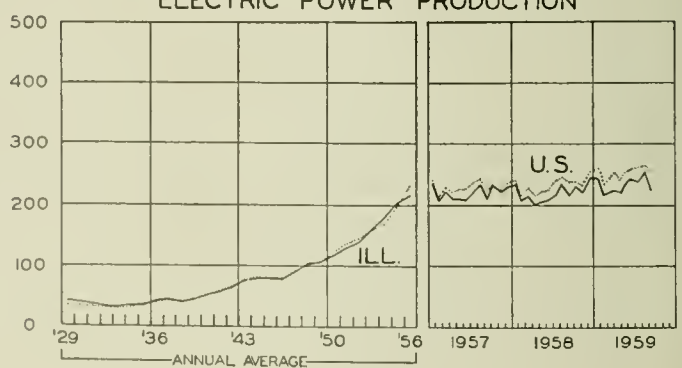
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
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HIGHLIGHTS OF BUSINESS IN NOVEMBER

The end of the steel strike was followed by an unexpectedly rapid restoration of production in that industry, but November industrial output as a whole was still restricted by steel shortages. Automobile production fell to 254,000 units, 50 percent below October. Sales of new American-made cars dropped to an estimated 375,000, well under October's 527,000 units.

Unemployment rose less than seasonally to 3,670,000, bringing the adjusted rate down to 5.6 percent of the labor force. Although the latest rise is due mainly to shutdowns forced by the steel strike, November marks two full years in which the rate has been 4.9 percent or more.

Farm Prices Down

During the month ended November 15, the index of prices received by farmers dropped 2 percent to 230 (1910-14 = 100). The index was 7 percent below a year earlier and the lowest since March, 1957. It was 27 percent below the record high of 313 reached in February, 1951.

Higher prices of family living items raised the index of prices paid by farmers for commodities and services 1 point, to 297, a new November high close to the record of 299 (April and May, 1959). The two opposing movements pushed the parity ratio down 2 points to 77, a nineteen-year low.

Business Sales Off

Despite a $500 million increase in retail sales, largely as a result of a spurt in auto purchases, total manufacturing and trade sales fell $500 million to $59.6 billion in October on a seasonally adjusted basis. Both manufacturers and wholesalers experienced sales declines of $500 million, with most of the reduction in each case occurring in nondurables. Sales by manufacturers totaled $29.3 billion, those of wholesalers $12.0 billion, and retail sales $18.3 billion.

Inventories also dropped $500 million, to $88.7 billion, all of the cut coming in manufacturers' durables; their stocks of nondurables rose $100 million. Retail stocks were steady at $24.8 billion and those of wholesalers stayed at $12.5 billion.

Construction Down Further

In October the value of new construction put in place fell to $4.8 billion, 5 percent below September. In terms of the seasonally adjusted annual rate the October figure amounted to $51.2 billion, off $1.9 billion from the preceding month. Some of the decline was attributed to shortages of steel resulting from the strike, but other factors, such as higher interest rates, contributed to it.

Private construction slipped 5 percent to $3.4 billion in October, with both residential and other private building sharing in the decline. Public construction was off 7 percent to $1.4 billion.

After adjustment for changes in construction costs, the first nine months of 1959 show a gain in building volume of 13 percent over the corresponding 1958 period. However, private residential construction was up 26 percent, whereas other private construction fell 1 percent.

Contract awards in October were below year-earlier figures for the third consecutive month, but the total of $3.1 billion was slightly higher than September.

Borrowing by Consumers Still High

Consumers added $608 million to their short- and intermediate-term debt in October, on a seasonally adjusted basis. This raised the total outstanding to $49.9 billion, 14 percent above the year-earlier total. Instalment debt accounted for $512 million of the October increase, bringing the total of this type to $38.4 billion. An addition of $278 million to outstanding automobile paper was the major factor in this gain, but other consumer goods paper, personal loans, and loans for repairs and modernization also advanced. Small increases in all three types of noninstalment debt — single-payment loans, charge accounts, and service credit — raised the total outstanding $96 million on an adjusted basis.

Record Bill Rate

The interest rate on 91-day Treasury bills rose to 4.501 percent on the last weekly issue in November, the highest rate in history. The increase from a rate of 4.279 percent in the preceding week followed a $2 billion sale of 320-day bills at 4.860 percent, the highest rate the Treasury has had to pay since 1929 on an issue maturing in less than a year. The absorption of $2 billion in short-term funds by the sale of the 320-day bills undoubtedly contributed to the record rate for the 91-day issue, as did perhaps the renewal of inventory accumulation with the end of the steel strike. Basically, however, the high rates reflect the current tight money policy.

GOVERNMENT AND THE STEEL STRIKE · · · By W. E. Chalmers · · · Page 8

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.
Second class mail privileges authorized at Champaign, Illinois.

Forecast for 1960

The steel strike lasted long enough to cut deeply into inventories and create moderate backlogs of demand for durable goods. The steel and auto industries are leading a vigorous rebound from the strike lows, and barring a new shutdown the economy seems likely to achieve new highs in the early part of 1960. Agreement on this is so general that the only significant aspect of current forecasts concerns the period beyond the middle of 1960.

The consensus among forecasters is that the advance will continue throughout the year. The standard view holds that the economy was in a strong upsurge prior to the strike, that the strike interrupted this upward movement temporarily, and that progress toward higher prosperity will now be resumed. Unfortunately, this view incorporates a number of misinterpretations and assumptions which cannot stand critical analysis.

Some Misconceptions

First, it is not true that just prior to the strike the economy was in a strong upsurge of a continuing character. The advance in early 1959 was dominated by short-term cyclical factors, namely, inventory accumulation and consumer credit expansion. These two contributed over half of the $50 billion increase in gross national product from the second quarter of 1958 to the second quarter of 1959. The swing in nonfarm inventories from $−8 billion to $10 billion was most important; adding the consumer-credit swing from $−2 billion to $6 billion brings the total contribution of these two factors to $26 billion. The second-quarter highs in these two factors dominated the short-term outlook at midyear. Strike or no strike, there was little chance that these rates could be sustained.

From a longer-term point of view, the prospect could not be considered much better. Real gross national product in 1954 dollars had advanced only $21 billion from the 1957 high, a 5 percent gain over two years. Again, however, $12 billion, or over half, was contributed by the same temporary factors. Adjusting for the temporary excess in these, the rate of increase was less than 2 percent per year. This lack of normal growth was reflected in increased unemployment, and in all probability, a decline in activity from the high second-quarter rate would have occurred even in the absence of a strike. The need for at least a temporary adjustment is shown by the recent production cutbacks in the aluminum industry in order to halt accumulation based on a strike threat. A similar decline in steel would have made for a quite different consensus on the outlook at this time. It seems clear that the strike has done more to sustain optimism than to improve actual economic prospects.

Another popular fallacy, endlessly repeated, blames every sign of weakness on the strike. Actually, the strike has had only minor over-all effects; the impressive thing about the third-quarter data, the latest available, is how little the strike affected activity anywhere but in the industries directly related to steel. There can be no doubt that the economy was holding a tremendous stockpile of steel at midyear. Curtailments in steel-using industries did not become significant until the second week in October. After the pinch became tighter, deficits accumulated, mounting to the equivalent of, say, six weeks' supply.

Many parts of the economy were not affected by the steel strike. If the official inventory data are reasonably accurate, they suggest an increase in inventory accumulation in other lines. Thus, steel accumulation in the second quarter may be roughly estimated at a rate of $4 billion out of the over-all $10 billion; in the third quarter decreases in steel stocks may be "guesstimated" at a rate of $9 billion out of an over-all decrease of $2 billion; this would imply an increase in accumulation of other inventories from a rate of $6 billion to $7 billion. Furthermore, consumer credit expansion rose from a rate of $6 billion to $7 billion in the third quarter. In other words, non-steel cyclical components in the economy continued to run as strong as the prevailing optimism could make them.

Looking ahead, nobody has been able to advance any good reason why segments not affected by the steel strike should "rebound" after its end. On the contrary, to the extent that any of these have been running at rates above those sustainable over a long period, their prospective changes are likely to be moderating rather than reinforcing.

In steel, there seems to be sufficient demand to force near-capacity operations until next June; but after that, production will have to drop back to the level of current demand. In most steel-consuming industries, such as autos and machinery, some demand has been shifted out of 1959 and into 1960. The shutdowns were not prolonged, however, and the periods required for catching up will be correspondingly short. The auto industry, for example, is scheduling first-quarter production at a rate of 9 million cars; if sales run at a rate of 7 million, normal inventories will be restored within the quarter and production will have to be cut back in the second quarter. Other industries may require longer periods for making up deficits, but this source of demand is not likely to be significant beyond mid-1960.

It may be concluded, therefore, that the upsurge now under way will neither be so strong nor so prolonged as is generally expected. The rebound will be limited to a group of specific industries and in the total will be partly offset by declines in other industries, as, for example, in residential construction. After the rebound has run its course, tendencies toward over-all weakness will again develop.

The First Half of 1960

Since developments after the middle of 1960 depend to a large extent upon how much activity will increase during the rebound, a forecast for the year may appropriately analyze the two halves separately. The following deals mainly with projections of gross national prod-

(Continued on page 6)

STRUCTURAL CLAY PRODUCTS

Although carried on for thousands of years, the manufacture of clay products did not change significantly until about a century ago, when technology revolutionized its operations. Until then, production had been relatively small, with output largely confined to the needs of the producing community.

Commercial production of structural clay products is believed to have begun in the United States about 1630, when the settlements became large enough to support professional artisans. The introduction of machines in the middle 1800's led to a mushrooming of the industry. By the end of the nineteenth century, the United States led world production in clay products, and this leading position has been further strengthened during the present century by the construction needs of a growing population and by the discovery of widespread deposits of suitably located raw materials and fuel supplies, which are essential for the mass production of clay products.

Scope of the Industry

The structural clay products industry manufactures approximately 40 types of clay products, all of which are used in construction or engineering work. Most of the production, however, is in six major clay products which account for nearly three-fourths of the total value of output. These products and their approximate percentages of total value of shipments are: building and facing bricks (33 percent), glazed floor and wall tiling (12 percent), vitrified sewer pipe and fittings (12 percent), fire clay brick (9 percent), facing tile (4 percent), and drain tile (3 percent). In all, total shipments of the industry last year were valued at about $600 million.

This is an industry consisting principally of medium-sized plants. There are very few large factories — only seven of the 1,060 establishments have more than 500 employees. The average employment per plant is about 80 workers, although labor requirements vary with the kind of product made. Because of the heavy raw materials and expensive machinery necessary for the manufacture of most structural clay products, there are few of the very small establishments found in most manufacturing industries. Only 110 of the 1,060 plants employ less than six persons.

Almost all of these plants quarry their own clay or purchase from nearby mines. In 1957, for example, the *Minerals Yearbook* reports that nearly 99 percent of the common clay used was captive tonnage for the manufacture of construction clay products. Common clay is the material preferred for structural clays chiefly because of its economy and high rigidity.

Method of Manufacture

There are a number of processes used today in the making of clay products, but the "stiff mud" process is the most widely utilized. It begins with the adding of water to clay or finely ground shale by means of a churning machine ("pugmill") until a plastic-like mass is obtained. The "mud" then is automatically or manually molded into the proper shape, depending upon the product. Bricks and sewer pipe, for example, are squeezed through a die into columns which are mechanically severed to the desired lengths. Terra cotta, on the other hand, is a product that requires hand-molding. Three or four days of artificial or natural drying of the clay is then necessary before "burning" the product for another four days in a tunnel kiln — an elongated, rectangular-shaped oven. Tunnel kilns have tracks upon which flat-cars stacked with the "green" products are slowly rolled through at varying temperature levels.

Fuels are a major cost element in the industry. The *Census of Manufactures* reveals that fuels accounted for more than 30 percent of the total material expenditures for structural clay production in 1954. The proportion of fuel to total costs was highest in brick plants (45 percent), followed by sewer pipes (42 percent), refractories (16 percent), and floor and wall tiling (7 percent).

An Old Illinois Industry

The commercial clay products industry began here soon after Illinois was granted statehood, when a number of small communities began to spring up. The abundant clay deposits were used for building purposes in the absence of suitable stone. The structural clay products industry grew quickly and soon surpassed pottery production. Drainage of crop land, another important problem on the Illinois prairie, was facilitated by clay tiling. Early tile production was centered in Kankakee County, where natural drainage was extremely poor. Manufacture has spread to other, scattered, glaciated areas of the State, where drainage is inadequate.

Although Illinois manufactures a relatively large variety of structural clay products, its principal activity in this field is in brickmaking. Its brick plants, which make facing, common, and refractory bricks, account for more than half of the state's 50 structural clay products factories. In addition, most of these establishments also produce other clay products, such as drain tile, hollow tile, terra cotta, roofing tile, and flue linings. Although Illinois is a leading brickmaking state, its production has been declining rapidly since 1954; between 1954 and 1958 the State dropped from second to fifth place as production slowed from 638 million to 451 million bricks. A similar decline has taken place during this period, however, in most brickmaking states of the Midwest and Middle Atlantic regions.

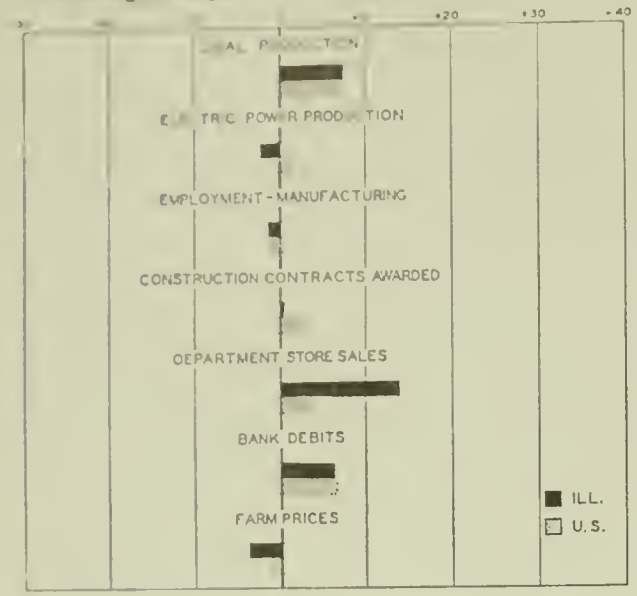
Structural clay manufactures in Illinois last year were valued at an estimated $30 million, or about 58 percent of all clay products produced in the State. Of this total, brick products accounted for 47 percent, followed by refractories (35 percent), drain and sewer tile (12 percent), structural tile (2 percent), and other clay products (4 percent).

The decline in brick production in Illinois during recent years has been offset by increased output in most other structural clay products. Moreover, the over-all industry is likely to remain strong in the State because of the widespread clay deposits and because of construction demands in one of the nation's most populous states.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1959, to October, 1959



ILLINOIS BUSINESS INDEXES

Item	Oct. 1959 (1947-49 =100)	Percentage change from Sept. 1959	Percentage change from Oct. 1958
Electric power[1]	222.0	−2.5	− 3.9
Coal production[2]	89.3	+7.5	+ 0.5
Employment — manufacturing[3]	100.9[a]	−1.5	+ 2.4
Weekly earnings — manufacturing[3]	167.9[a, b]	−0.1	+ 3.8
Dept. store sales in Chicago[4]	126.0[c]	+3.3	+ 5.9
Consumer prices in Chicago[5]	129.3	+0.1	+ 1.6
Construction contracts awarded[6]	385.6	+0.5	+22.9
Bank debits[7]	207.4	+6.4	+ 2.9
Farm prices[8]	76.0	−3.8	−10.6
Life insurance sales (ordinary)[9]	287.0	+3.8	− 9.0
Petroleum production[10]	121.7	+1.5	− 1.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for September, 1959; comparisons relate to August, 1959, and September, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1959	Percentage change from Sept. 1959	Percentage change from Oct. 1958
	Annual rate in billion $		
Personal income[1]	381.9[a]	+ 0.3	+ 4.8
Manufacturing[1]			
Sales	350.4[a]	− 1.7	+ 7.4
Inventories	51.4[a, b]	− 1.0	+ 4.3
New construction activity[1]			
Private residential	24.3	− 3.8	+13.1
Private nonresidential	16.7	− 3.2	+ 0.1
Total public	16.5	− 7.1	−12.9
Foreign trade[1]			
Merchandise exports	17.7[c]	+ 5.9	+ 8.7
Merchandise imports	16.7[c]	+17.0	+29.6
Excess of exports	1.0[c]	−57.9	−69.6
Consumer credit outstanding[2]			
Total credit	49.9[b]	+ 3.1	+15.5
Instalment credit	38.4[b]	+ 2.5	+16.2
Business loans[2]	30.4[b]	+ 0.1	n.a.
Cash farm income[3]	38.9[c]	+25.9	−17.2
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	148[a]	− 0.7	+ 7.2
Durable manufactures	157[a]	− 0.6	+ 7.5
Nondurable manufactures	146[a]	− 0.7	+ 9.0
Minerals	117[a]	+ 0.9	− 4.1
Manufacturing employment[4]			
Production workers	97	− 1.2	− 4.1
Factory worker earnings[4]			
Average hours worked	101	0.0	+ 1.3
Average hourly earnings	166	− 0.5	+ 3.3
Average weekly earnings	168	− 0.5	+ 4.6
Construction contracts awarded[5]	316	+ 2.5	− 5.3
Department store sales[2]	144[a]	+ 0.7	+ 6.7
Consumer price index[4]	126	+ 0.2	+ 1.4
Wholesale prices[4]			
All commodities	119	− 0.4	+ 0.2
Farm products	86	− 2.7	− 6.3
Foods	106	− 1.3	− 3.3
Other	128	+ 0.1	+ 1.7
Farm prices[3]			
Received by farmers	87	− 1.1	− 5.4
Paid by farmers	118	− 0.8	0.0
Parity ratio	79[d]	− 1.2	− 7.1

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for September, 1959; comparisons relate to August, 1959, and September, 1958. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1959					1958
	Nov. 28	Nov. 21	Nov. 14	Nov. 7	Oct. 31	Nov. 29
Production:						
Bituminous coal (daily avg.) ..... thous. of short tons.	1,600	1,571	1,528	1,279	1,323	1,553
Electric power by utilities ..... mil. of kw-hr.	13,173	13,812	13,270	13,019	12,978	12,274
Motor vehicles (Wards) ..... number in thous.	56	80	76	76	118	144
Petroleum (daily avg.) ..... thous. bbl.	6,969	6,935	6,876	6,899	6,887	6,983
Steel ..... 1947-49 = 100	147	130	75	21	21	115
Freight carloadings ..... thous. of cars	574	629	638	561	588	539
Department store sales ..... 1947-49 = 100	176	182	167	155	145	171
Commodity prices, wholesale:						
All commodities ..... 1947-49 = 100	119.0	118.9	119.2	119.2	119.3	119.2[a]
Other than farm products and foods .. 1947-49 = 100	128.7	128.6	128.7	128.6	128.6	126.8[a]
22 commodities ..... 1947-49 = 100	84.9	85.2	86.1	86.6	86.9	87.9
Finance:						
Business loans ..... mil. of dol.	29,901	29,912	29,727	29,687	29,516	n.a.
Failures, industrial and commercial .. number	268	287	285	265	273	244

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1958. n.a. Not available.

RECENT ECONOMIC CHANGES

Business Capital Outlays

Results of the latest survey conducted by the Department of Commerce and the Securities and Exchange Commission indicate that businessmen have adjusted their capital expenditure plans downward for the final quarter of the year, reflecting for the most part the effects of the steel strike. Businessmen now expect to spend $32.6 billion for plant and equipment this year, about $700 million less than they estimated in the previous survey three months ago. If these plans are fully realized, capital expenditures in 1959 will be about 7 percent above last year's outlays of $30.5 billion, but still well below the record $37 billion spent in 1957.

The agencies also reported that actual third quarter outlays, at an annual rate of $33.5 billion, were about $800 million less than had been planned. For the fourth quarter the adjusted annual rate of anticipated spending was reduced to $34 billion from previous estimates of $35.3 billion. Programs for the first three months of 1960 indicated a $34.5 billion spending rate. Most of the reductions in actual and planned spending from previously anticipated levels in the third and fourth quarters resulted from lower expenditures by durable goods manufacturers, particularly the iron and steel industry.

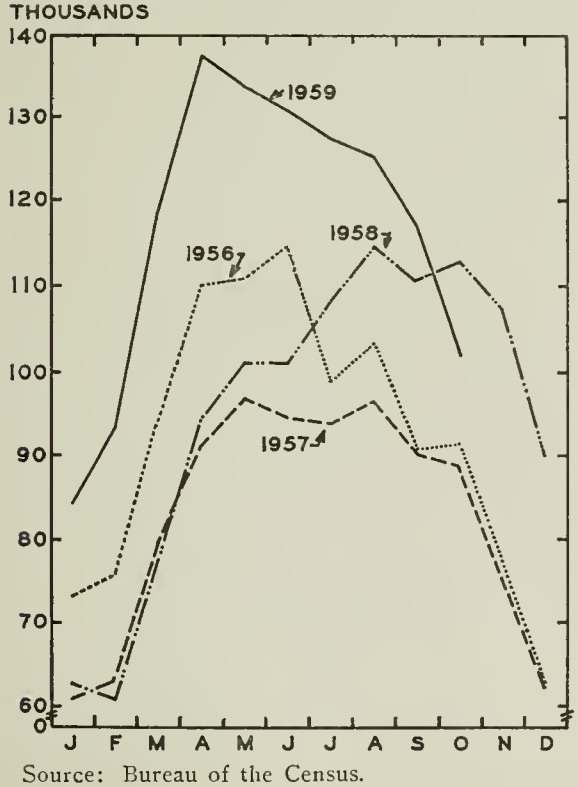
Housing Starts

The number of nonfarm housing starts dropped sharply in October to 105,100 units, according to preliminary estimates made by the Department of Commerce. The agency attributed much of the decline to the tight supply of mortgage money. For the first ten months, the number of new dwelling units started totaled 1,202,000, about 19 percent above the total for the same period last year.

Starts of privately owned dwelling units in October were almost 15,000 units, or 13 percent, below the previous month's level. The decline to 102,100 private units in October also marked the first time this year that private housing starts had fallen below year-ago levels (see chart). The latest drop also represented the sixth consecutive month of decline in the number of new starts since the peak of 137,400 was reached in April.

On a seasonally adjusted basis, private housing starts in October were at an annual rate of 1,180,000 units, down 11 percent from September. When averaged for the first ten months, the seasonally adjusted annual rate of private starts in 1959 amounted to 1,356,000, compared with 1,089,000 units for the same period in 1958.

NONFARM HOUSING STARTS



Source: Bureau of the Census.

School Enrollment

Enrollments in regular schools and colleges in the United States have advanced almost 47 percent since 1950, according to the results of a survey conducted by the Census Bureau in October, 1959. The continued expansion has pushed enrollment up to 44.4 million persons this fall, compared with 42.9 million in the fall of 1958 and only 30.3 million in the same period in 1950. More than half of the increase has come since 1954. Total enrollment for 1959 amounted to 55.5 percent of the total number of persons between 5 and 34 years of age.

College and professional school enrollment this fall amounted to 3.3 million students, of whom about 75 percent were on full-time schedules. In 1954 enrollment at the college and professional level was about 1 million less. At other levels the current enrollment figures were placed at 2 million for kindergarten, 29.4 million in the elementary grades, and 9.6 million in the high schools.

Personal Income Up

A gain of $1 billion raised personal income to $381.9 billion in October, only $1.5 billion below the July peak. Increases of $300 million each in personal interest income and transfer payments and $500 million in proprietors' income more than offset a $200 million decline in wage and salary disbursements. The latter, at $259 billion, were off about 1 percent from their peak in June, although wage and salary income in the distributive and service industries and in government continued to increase. Wage and salary disbursements in the commodity-producing industries were down $4.7 billion from their high in June and July, mainly reflecting the steel strike.

Unemployment

The number of jobless rose 398,000 in November to a near-record postwar high for the month of 3.7 million. Only the November, 1958, level of 3.8 million unemployed surpassed last month's figure. The latest advance was due primarily to continuing layoffs in steel-using industries, although seasonal cutbacks in construction also contributed. The November increase did not match the seasonal rise of 700,000 usually expected for the month, and the seasonally adjusted rate of unemployment declined to 5.6 percent. However, employment suffered a more than seasonal drop, falling 1.2 million during the month.

Labor Department data, in thousands of workers, are as follows:

	Nov. 1959	*Oct. 1959*	*Nov. 1958*
Civilian labor force	69,310	70,103	68,485
Employment	65,640	66,831	64,653
Agricultural	5,601	6,124	5,695
Nonagricultural	60,040	60,707	58,958
Unemployment	3,670	3,272	3,833
Seasonally adjusted rate	5.6	6.0	5.9

Forecast for 1960

(Continued from page 2)

ual components, in constant dollar terms, to the second and fourth quarters of 1960. As a basis for doing this, it is assumed that there will be no further disturbances, on either the labor or the international front. (The specific figures for various items projected cannot be included here; the reader who is interested may obtain them in mimeographed form on request.)

As a first step, the factors making for short-term instability must be considered. Nonfarm inventories are sure to swing back to large-scale accumulation in the months ahead. In steel, the peak accumulation rate is likely to be a billion or so lower than last spring, initially because of capacity limits and later because of reduced needs. Other inventory rates may be expected to fall back somewhat from the recent high, but accumulation may continue, perhaps at a rate of $4 billion. This would make a combined total of $7 billion in the second quarter, or $3 billion less than the high 1959 rate.

Consumer credit will continue to rise, possibly at as high a rate as last spring. Auto sales are likely to be somewhat higher, with a second-quarter rate close to 7 million, as compared with 6.6 million in the second quarter of 1959. But average dollar realization will be lower on the compact cars and repayments will be higher, so that credit expansion may be near the same rate.

The net export balance may be expected to recover somewhat, since other world economies are expanding rapidly. For reasons cited last month, the balance may not swing all the way over to the plus side, but a gain of more than $1 billion is likely.

Government spending will continue to increase, but a small decline in federal purchases of goods and services may partly offset a larger increase in state and local purchases. The latter may be projected slightly below the $3 billion experienced in the last few years in view of the recent cutbacks in public construction. On the other hand, the federal Administration is committed to tight money and a budget surplus. It is devoted to the proposition that the only expenditures which can be permitted to rise are interest charges on the federal debt. Other spending is being held at this fiscal year's level in money terms, which means a slight decrease in real terms.

Residential construction is currently being depressed by a variety of factors, among which tight money stands out. Without new assistance to the housing market, the decline will probably continue. Even if Congress acts, recovery will lag, so that activity next spring will reflect the current decline in starts and may fall some 15 percent, or about $3.5 billion, from the 1959 high rate.

The brightest spot in the picture is business spending for new plant and equipment, with all the indicators pointing higher. The McGraw-Hill survey of business plans projects a 10 percent increase on an annual basis, and with some shifting from 1959 to 1960, this might be increased a little. Although this result does not represent an all-out boom, it should produce a total close to the 1957 peak, and a year-to-year gain of about $3.5 billion in the second quarter.

In the aggregate these changes are roughly offsetting and leave nonconsumption expenditures at roughly the same second-quarter level in 1960 as in 1959. Allowing for autonomous trend elements in consumption, especially in services, and for some carryover demand from late 1959, an increase of $5 billion may be projected over the year to the second quarter. This 1 percent increase would bring gross national product in third-quarter 1959 dollars to approximately $492 billion. If price increases are allowed for, they would add about $5 billion more. Thus, the half-trillion total of production in current dollars is likely to be closely approached, though there can be no assurance that this "magic number" will be exceeded.

The Last Half of 1960

More important than the level attained is the rate of growth implicit in this projection. An increase of 1 percent to the second quarter of 1960 continues the inadequate rate of growth prevailing since 1956. Unemployment will therefore tend to increase. Furthermore, over half of the increase in real gross product will be in consumer and government services. Since the bulk of business investment depends upon demand for commodities, this pattern of development spells the disappointment of current high expectations. How severe the reaction might be is difficult to estimate.

After midyear, declines in the short-term factors will tend to dominate the over-all movement. In the case of inventories, some excess will probably develop. It is not enough, therefore, to assume that accumulation will cease by the year-end; the decline will have to progress all the way into liquidation.

Fixed capital programs are slower moving and tend to lag. Business investment in the second half of the year will probably be higher than in the first half. There is nothing, however, to support current theories of ever-rising capital outlays, and a slight downward adjustment late in the year is probable.

As soon as the economy weakens, the tight money policy will be reversed, and the downward drift of real federal purchases will not only be halted but turned up. This may be offset in part, however, by a contrary movement in state and local spending.

Housing activity will be subject to diverse influences. If easier money proves to be the most potent influence, there may be some recovery. But other factors are important and the danger of a more serious collapse in a general downturn is at least as probable as any substantial recovery. Pending clarification, this activity may be treated as a relatively neutral factor.

Consumption will again be a stabilizing element in the over-all picture. With the support of the built-in stabilizers, it is bound to play this role in the early stages of any downturn. However, personal saving dropped to a very low level in relation to income in recent months, and it may continue low in early 1960 as a result of carryover spending, but it will tend to rise once the rebound period is past. This reversal will tend to be reinforced by the need to reduce the rate of credit expansion. Hence, in a new recession, consumption will probably keep more nearly in line with over-all activity than in early 1958.

In summary, a new recession is likely to set in after the middle of 1960. If business investment and housing hold relatively steady, it is not likely to progress very far within the year. Even if these activities are cut more sharply than expected, most of the over-all averages for 1960 will be higher than for 1959. Various contingencies add to uncertainty in the current situation, so that this picture could be changed drastically. Resumption of the steel strike, for example, would shift production into the second half and in all probability postpone any recession into 1961. Despite these uncertainties, it seems safe to conclude that it will not be wise to rely on the optimism now dominating the economy — even though the developments of the next few months may seem to be confirming its validity.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

State Tax Collections in 1959

Tax collections by state governments climbed to an all-time high of $15.8 billion in the fiscal year ending June 30, 1959. The Census Bureau, in its *Detail of State Tax Collections in 1959,* reported that the 1959 total was 6 percent above the total collected by state governments in the previous year. Some advance in tax revenue was reported for 46 states. Only Minnesota, Nebraska, and Oregon experienced declines. The largest relative increases (15 percent or more) occurred in Delaware, Maryland, Kansas, New Jersey, Massachusetts, and Arizona, while the largest dollar advances were reported by California (up $139 million) and New York (up $85 million). Tax collections in Illinois rose 1 percent from $735 million in fiscal 1958 to $742 million in 1959.

All major tax sources, with the exceptions of corporate net income and death and gift taxes, contributed to the over-all advance. The largest percentage gain, 20 percent, was recorded in revenue from taxes on gross premiums of insurance companies. The major source of state tax revenue, however, continues to be the general and selective sales and gross receipts taxes, which accounted for 59 percent of total tax revenue in 1959. This source brought in about $9.3 billion during fiscal 1959, a gain of 6 percent over 1958.

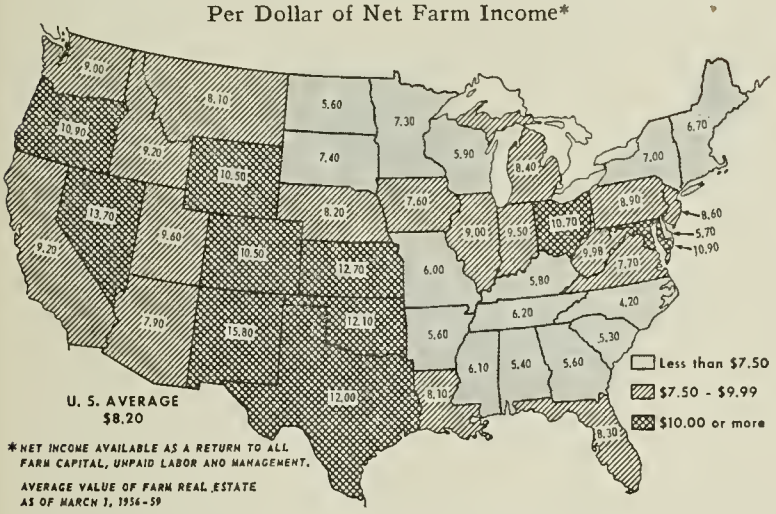
On a per capita basis state tax collections averaged $91.70 per person in 1959. Delaware, Washington, and Nevada, with averages over $145 per person, had the highest per capita state tax collections.

Farm Real Estate Investment

The average value of farm real estate per dollar of net farm income in the United States fell to $7.90 as of March 1, 1959, from the $8.20 average for 1955-58. Regional differences in the amount of real estate capital per dollar of income are illustrated in the accompanying chart. The ratio is twice as high in some states as in others. These variations result from differences in the relative proportions of real estate and non-real estate capital which are employed on the typical farm in different parts of the country. In some areas, however, particularly in such states as Ohio, West Virginia, and Maryland, nonagricultural factors, such as demand for land for industrial use, have tended to raise the ratio of land values to income by holding real estate values above the level that would be supported by farm income alone.

For the year ended July 1, 1959, market values of farm real estate in the United States rose 6 percent, pushing the Agriculture Department's index of average farm land value per acre up to a record high of 169 (1947-49 = 100). The estimated total value of all farm real estate rose to $126.6 billion, or an average of $109 per acre.

AVERAGE FARM REAL ESTATE INVESTMENT, 1955-59
Per Dollar of Net Farm Income*



Source: U. S. Department of Agriculture, *Farm Cost Situation,* November, 1959, p. 25.

Outlays for Maintenance and Repairs

Maintenance and repair expenditures for all types of construction declined slightly in 1958 to $17.7 billion, according to a report in the November issue of *Construction Review* published by the Department of Commerce. The drop of 1 percent from the record 1957 level of $17.9 billion reversed a continuing upward movement in the postwar period. Total maintenance and repair expenditures had climbed from about $12.0 billion in 1949 to the 1957 peak.

Expenditures for nonfarm residential buildings, the largest component, fell from $7.4 billion to $6.8 billion in 1958, an 8 percent drop which exceeded the decline in total spending for maintenance and repair. Outlays for other individual categories during 1958 showed contrasting movements. Maintenance for nonresidential buildings rose $350 million to $3.9 billion, and the value of highway repair work increased more than $100 million to $2.2 billion. On the other hand, railroad outlays fell from $1.5 billion to $1.3 billion during 1958.

Households With Telephones

According to the results of a sample survey conducted by the Census Bureau, the number of households in the United States which have telephone service amounts to 36.5 million, or 73 percent of the national total of 50.4 million households. The survey also indicates that the median income of households with telephones is about $5,300, more than double that of households without telephones, and, in general, the proportion of households with telephone service is greater in each successively higher income group.

As might be expected, the proportion of households with telephones is greatest in urban areas. The proportion of households in urban areas is about 79 percent, compared with 66 percent in rural nonfarm areas, and 49 percent in rural farm areas. However, within the Census Bureau's Standard Metropolitan Areas, the central cities have a somewhat lower percentage (78) than do other urban areas (85).

By geographical region, the Northeast, with 80 percent, the North Central, 78 percent, and the West, 76 percent, are all above the national average. In the South, only 58 percent of the households have telephones.

GOVERNMENT AND THE STEEL STRIKE

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The basic steel industry is operating today because a court order has temporarily prohibited the union from striking. The injunction, granted by the Supreme Court after the Steelworkers had been on strike for 114 days, is based on a finding of national emergency — that the strike imperils the "health and safety" of the country. A few days earlier, a similar injunction was granted in a longshore dispute following a one-day strike which tied up East Coast ports. Under the Taft-Hartley law, injunctions expire after 80 days. The longshore dispute was settled in December, within the 80-day period. The injunction in the steel industry is due to expire in late January, and the union is threatening to renew its strike unless an agreement is reached before that date.

When Congress reconvenes in January, therefore, it may face two kinds of issues. The first concerns the specific dispute. If the steel strike is resumed, the President must report to Congress with any recommendations he cares to make. The second will center on the widespread concern that the present law on emergency disputes needs to be revised because it is not effective.

Objectives of Government Action

Both of these issues pose the same problems of alternative ways to accomplish three general national objectives. These may be stated as follows:

(1) Even in an "emergency dispute," the management and union involved should be provided the maximum possible role in deciding the terms of employment. This looks beyond the termination of the particular controversy. The hope is that the settlement will be the basis on which the parties can function peacefully and effectively in the future, with the avoidance of similar future crises.

(2) Government should have machinery available so that it has at least a reasonable chance of stopping a strike whose continuance threatens the country. The machinery should be effectively used where necessary.

(3) Any governmental measures for settling the strike should be as "neutral" as possible with regard to the bargaining positions of the two parties.

It should first be noted that, even at the level of abstract propositions, there is not full agreement on the third of these propositions. Some believe that the time has come for government intervention to affect the terms of all major collective bargaining settlements, whether a national emergency is threatened or not. They may want the government to protect against inflation or, in the reverse, to assure adequate purchasing power. Others want the government to protect "management's rights" in order to accelerate technological progress or, in the reverse, to assure workers' job security.

Generally, however, those who wish to influence the terms of settlement begin by nominally accepting all three general objectives, but then they urge government action in the specific case in the hope that the result will be not only "peace" but also a victory for the kind of terms they prefer. Thus, some applauded the President's frequent appeal to the steel negotiators to reach a non-inflationary settlement because they hoped it would cause the union to settle for less. The union, on the other hand, claims that the injunction was applied at a time that aided the bargaining position of the steel companies.

The last great debate on the emergency dispute issue occurred in 1945-47 when numerous prolonged and widespread strikes occurred. The "solution" then, the "80-day cooling-off period," now is called into question. The basic problem, then and now, is the apparent conflict, in practice, between the first two of the generally accepted national objectives. Implicit in the private determination of terms of employment through collective bargaining is the right to strike if satisfactory terms cannot be reached. Thus, any degree of government intervention is a reduction in the freedom of collective bargaining. The concern for the preservation of free collective bargaining is not limited to workers and unions. Many managements and others also fear that the substitution of governmental processes for collective bargaining is a threat to the free enterprise system because it will inevitably lead to more general government controls, at least in the affected industries.

Alternative Proposals

Students of the subject have considered many alternative approaches. Congressional debate in 1947 considered several. One or another has been tried either by the federal or by state governments. These can be listed in a range from the least to the greatest substitution of the governmental for the collective bargaining process.

(1) No action. This position would hold that the absence of government interference is more important for the long-run health of the economy than is the damage of the moment, and therefore the government should take no action at all. Many would retain this position only up to some point — and then timing becomes a supplementary problem. Some students have concluded that in only a very few cases was the use of a Taft-Hartley injunction really necessary to "save" the economy.

(2) An injunction prohibiting strikes only for a limited period (80 days in the present act). This appears to be a neutral device used to assure production for a short time without interfering with the bargaining position of either side. As the steel experience demonstrates, however, it may in fact operate to improve the bargaining position of one rather than the other side (of the steel companies, in the current case).

A modification of this position, urged by the Steelworkers union before the Supreme Court, would limit the injunction to those productive operations immediately necessary for the nation's health and security. This proposal would permit a strike to continue in large parts of an industry and minimize the intervention. Such a position, of course, is close to that of the first alternative, for, although it would protect the physical health and military position, it assumes it is better to preserve the maximum of collective bargaining even at the risk of severe damage to the national economy.

(3) Terms of settlement recommended by a government board. Although the recommendations may be ignored, this system is advocated because of the assumption (usually, but not always, supported in practice) that both parties would come under public pressure to abandon previously held positions and accept the recommended terms.

(4) Compulsory arbitration. Here terms are also announced by a governmental board, but the parties are required to accept them. In this case, the parties would

no longer have any choice either on the continuance of the stoppage or on the terms of settlement.

(5) Seizure. In this case the government would control both the operation of the facility and the terms of employment until the parties could arrive at a settlement. The degree of actual intervention would depend on the terms of seizure. The seizure may, in effect, be limited to the requirement that no strike occur, which would be approximately the same as an indefinite injunction. Alternatively, the imposition of interim conditions of employment may be expected to strongly influence the later terms of settlement. It might even be provided that seizure will be lifted only when both sides accept the interim terms. Or sharp interim burdens may be imposed on one or both parties in order to provide an incentive for an early private settlement. Depending on the terms so imposed, the pressure may be directed much more severely on one or the other of the two parties.

The judgment on the relative desirability among these five alternatives, then, depends on which could be expected to lead to an early settlement, which would do most to preserve free collective bargaining, and which would lead to preferred terms of settlement. Differing judgments lead some to urge one of these five alternatives and others some other single alternative, but most students of the problem stress the undesirability of placing too much emphasis on any one single approach. No two "emergency disputes" are alike. Industries differ not only in their impact on the economy, but also in their collective bargaining experience, in the kind of established relationships between the parties, and in the characteristics of the union and management groups involved.

Elements of Flexibility

It would appear desirable to permit the government to use any of the approaches outlined that would seem likely to be effective in the specific case. This would partly result in procedures adapted to the specific circumstances, but there is also a second reason. To induce each party to reach a private settlement there needs to be created in the judgment of each the conviction that its risks are greater if the government intervenes than if it reaches agreement with the other. It is hoped, then, that the uncertainty of the government's choice among available alternatives will prompt private settlement. Under present law, we have noted, choice among alternatives is available to Congress but not to the President.

A second element of necessary flexibility involves the timing of government action. As with other aspects of governmental discretion, judgments will differ on the timing depending on the relative emphasis on protecting the economy or on maximizing the role of the parties in collective bargaining. For instance, should the steel injunction have been further delayed, as the union argues? Or should the government act as rapidly as it did in response to the strike on the waterfront?

There is a third element of flexibility available to the government. It concerns the kind of responsibilities assigned to Congress, the President, and the courts. At present, the initiating action (only on whether or not an injunction is sought) is with the President. The final determination that an emergency exists is with the court. Any alternative action depends on Congress.

This choice among agencies depends in part, as has been implied, on judgments as to which agency will act in the direction more favorable to one or the other party. But it also depends on the likelihood that an alternative will be selected that is most likely to successfully bring the dispute to a conclusion. This latter emphasis leads to general agreement that the expertise of the executive branch makes it the most appropriate agency for applying governmental policies.

A Program With Minimum Government Role

A program could be constructed in order to achieve the following objectives: (1) no direct government intervention except under extreme necessity, (2) the minimum possible government involvement even in such cases, (3) the least possible partisanship as between the two sides, and (4) no effort by the government to regulate the economy by influencing the terms of settlement. Accomplishing such objectives would involve two steps:

(1) Require the parties in each crucial industry to formulate, in advance of any specific bargaining, their own procedures for the resolution of disputes short of a stoppage that would threaten the economy. Particular procedures have already been developed by the parties in the railroad and atomic energy industries. Such specialized arrangements may require legislative as well as private action. For the railroads, governmental processes were also incorporated in the Railway Labor Act of 1926 and its amendments. For atomic energy, government involvement has been a result of administrative action. Equally specialized approaches are needed in steel, coal, ocean shipping, and perhaps a few other industries.

(2) Provide the President with authority to adjust his action to the arrangements in each industry and thus to select from a variety of mechanisms, including all of the five approaches indicated earlier. Also permit him to select his own timing for the application of any measure. There might well be a statement of legislative policy that such action be as neutral as possible on the issues in dispute.

Would this double-barreled approach make it certain that no emergency stoppages would occur? Such complete assurance appears highly unlikely. Since the assumed set of objectives includes as much freedom as possible in collective bargaining, some miscalculations, either of the parties or of the government agencies, are always possible. Thus, for instance, the specialized machinery for the railroads is undergoing another test of its effectiveness. Further experimentation may be necessary. Certainty, however, can only be achieved by a degree of regimentation that most of us would find abhorrent.

At the time of this writing, with the steel dispute unsettled, any prediction on amendment of the law is difficult. It seems clear, however, that the urgency of congressional action will depend on whether or not the immediate crisis is past. For a variety of reasons, including the difficulty of choosing from among the many alternatives put before it, Congress would appear unlikely to act in the coming session unless pressure for action derives from a steel or railroad crisis threatening very drastically to disrupt the economy.

As this analysis suggests, the union and management leaders in the steel case need to take account of possible executive or congressional action as the injunction period draws to a close. Perhaps further government action will not be taken so long as a prompt settlement by the parties themselves seems likely. But if further action appears necessary, the President, even without additional legislative authority, could request the continuation of production pending the submission of recommendations by a board. If Congress also acts, it might be expected to authorize an extension of the injunction while a board made recommendations. Both compulsory arbitration and seizure are possible, though unlikely, alternatives available to Congress.

LOCAL ILLINOIS DEVELOPMENTS

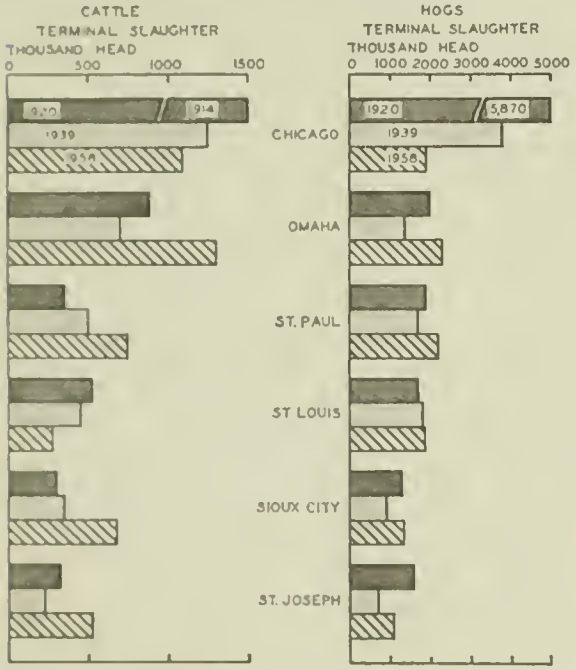
In October most of the available indexes of business activity in Illinois made gains over September. Coal production was up 7 percent, and bank debits rose 6 percent. Department store sales in Chicago, the only seasonally adjusted series, increased 3 percent, and life insurance sales advanced 4 percent. Declines occurred in manufacturing employment and electric power production as a result of the steel strike. Prices of farm products went down in accord with the nationwide movement of these prices. Most of the state indexes were above year earlier figures, but farm prices, life insurance sales, electric power production, and petroleum output were down.

Changes in State Coal Output

A comparison of Illinois coal mining over the last five years brings out several interesting developments. As a result of the recession, coal production fell in 1957 and again in 1958 from the five-year high in 1956 of 47.8 million tons. In 1958 it was down to 43.8 million tons. However, in each of the years from 1954 to 1958 production of strip mines increased; by 1958 they turned out 20.6 million tons, 47 percent of the total and 26 percent more than in 1954. Output of underground mines was off 5 million tons from the 1956 peak and 2 million tons from the 1954 low. The number of mines operated declined from 206 in 1954 to 179 in 1958, although the number of mines shipping outside the local area held fairly steady except for a temporary increase in 1957. Underground mines, both local and shipping, declined sharply in number over the five-year period, while the number of strip mines increased until 1957.

Improvement in output per employee, particularly as a result of the switch to strip mining, is evident from a comparison of employment and output data. The number of employees in all mines fell from 16,665 in 1954 to 11,386 in 1958; in the latter year output per employee reached a high for the period, despite the continuous reduction since 1955 in average days worked.

CHANGES IN SLAUGHTERING, SELECTED CITIES, 1920, 1939, AND 1958



Source. Federal Reserve Bank of Chicago, *Business Conditions*, November, 1959, p. 7.

Governmental Finances in Illinois

In 1958 the general revenue of the state and local governments of Illinois amounted to $226 per capita, according to the Bureau of the Census report, *Governmental Finances in 1958*. The average for the country as a whole was $238 per capita. For Wyoming and Nevada, the highest states, the figure was about $400. Some $20 of the Illinois revenue per capita came from the federal government; state and local taxes accounted for about $181, roughly half of which came from property taxes, and charges and miscellaneous general revenue brought in about $25 per capita.

Another view of state and local government revenue in Illinois is provided by a comparison with personal income. Governments in the State had $93 in revenue per $1,000 of personal income during 1958, compared with a national average of $116. Delaware, Connecticut, New Jersey, and Pennsylvania were the only states with lower state and local governmental revenues per $1,000 of personal income in 1958.

By borrowing to supplement revenues, governments in Illinois were able to spend $261 per capita in 1958, slightly more than the national average of $259. About $84 per capita was expended on education, of which about $73 went for local schools and $11 for state institutions of higher education. Each of these latter figures is under the corresponding national average and far below the per capita outlays for education in such states as California and Arizona. Highways fare better in Illinois, with per capita expenditures of $62 as against an average for all states of about $49.

Meat Packing in Chicago

The decline of Chicago as a meat-packing center, highlighted by the recent closing down of several slaughtering plants, is traced in an article in the November issue of *Business Conditions*, monthly publication of the Federal Reserve Bank of Chicago. As the accompanying chart shows, Omaha has replaced Chicago as the leading packing center, and the volume of other cities has been growing while that of Chicago has been declining. In 1920 Chicago's terminal slaughter of cattle was roughly twice that of Kansas City, then the second-ranking center but now well down the list. At that time about three times as many hogs were slaughtered in Chicago as in the next largest center, Omaha, but by 1958 the Windy City had fallen behind both Omaha and St. Paul. Chicago clings to its leading position as a cattle market, largely as a result of its growth as a shipping market for top grades of slaughter cattle, but Omaha is now a close second. As a hog market, Chicago had fallen to third place in 1958, behind South St. Paul and East St. Louis, and was barely ahead of Omaha and Indianapolis.

Growing use of trucks for livestock shipments and shifts in population distribution have been important factors in Chicago's decline as a packing center. Trucks have contributed to the decentralization of the industry, and the growth of Western markets has increased the locational advantage of plants west of Chicago. In addition, technological changes in packing have made the older Chicago plants obsolete.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1959

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$39,964[a]	1,164,507[a]	$555,088[a]		$18,129[a]	$17,845[a]
Percentage change from	Sept., 1959	−17.0	−7.8	+10.6	+14	+6.4	+11.8
	Oct., 1958	−2.0	+5.3	+5.9	+7	+2.9	+9.9
NORTHERN ILLINOIS							
Chicago		$31,559	849,132	$402,962		$16,562	$15,720
Percentage change from	Sept., 1959	−7.3	−6.3	+12.2	+14	+6.7	+12.1
	Oct., 1958	+34.8	+1.4	+5.7	+6	+3.0	+11.2
Aurora		$1,025	n.a.	$ 9,353		$ 85	$ 150
Percentage change from	Sept., 1959	+13.8		+10.4	+11	+3.3	+3.8
	Oct., 1958	−6.4		+5.6	+14	+18.0	−1.7
Elgin		$ 220	n.a.	$ 6,271		$ 54	$ 118
Percentage change from	Sept., 1959	−60.9		+7.8	n.a.	+8.0	+36.2
	Oct., 1958	−87.4		+4.6		+8.6	+6.8
Joliet		$ 764	n.a.	$10,499		$ 97	$ 102
Percentage change from	Sept., 1959	−12.6		+4.6	−3	+8.9	−0.6
	Oct., 1958	−79.8		+4.8	+9	+8.6	−3.3
Kankakee		$ 165	n.a.	$ 5,436		n.a.	$ 62
Percentage change from	Sept., 1959	−37.5		+12.7	n.a		+5.3
	Oct., 1958	−47.3		+10.7			+16.2
Rock Island-Moline		$ 948	28,650	$12,048		$ 129[b]	$ 155
Percentage change from	Sept., 1959	−52.0	+6.5	−1.5	n.a.	+11.7	−10.4
	Oct., 1958	−8.9	+15.5	+18.0		+10.2	−7.1
Rockford		$1,004	50,147[c]	$18,175		$ 217	$ 226
Percentage change from	Sept., 1959	−27.3	−6.0	+9.8	+16[c]	+10.6	+7.9
	Oct., 1958	−17.9	+18.0	+12.4	+4[c]	+14.0	+0.0
CENTRAL ILLINOIS							
Bloomington		$ 360	8,992	$ 5,451		$ 70	$ 106
Percentage change from	Sept., 1959	−4.0	−7.1	+7.8	n.a.	−12.7	−3.7
	Oct., 1958	−60.0	+5.6	−0.3		−15.2	−1.6
Champaign-Urbana		$ 604	14,147	$ 8,209		$ 93	$ 135
Percentage change from	Sept., 1959	−8.9	−12.3	+23.7	n.a.	+9.6	+22.4
	Oct., 1958	+0.2	+11.4	−1.6		−0.5	+0.6
Danville		$ 197	14,019	$ 6,110		$ 56	$ 73
Percentage change from	Sept., 1959	−26.5	−10.1	+5.4	+13	+4.0	+9.3
	Oct., 1958	+22.4	+11.5	+4.7	+8	+5.3	−4.4
Decatur		$ 657	35,704	$11,401		$ 142	$ 130
Percentage change from	Sept., 1959	+57.6	−11.6	+7.4	+8[c]	+13.1	+12.9
	Oct., 1958	−80.6	+7.1	+4.6	+6[c]	−5.6	+8.1
Galesburg		$ 314	8,872	$ 4,684		n.a.	$ 48
Percentage change from	Sept., 1959	−88.6	−18.0	+5.8	n.a.		+10.5
	Oct., 1958	−60.0	−4.7	+1.4			+2.8
Peoria		$ 522	52,332[c]	$17,425		$ 240	$ 318
Percentage change from	Sept., 1959	−33.1	−23.7	+4.2	+12	−1.7	+23.0
	Oct., 1958	+24.9	+23.6	+7.6	+11	−5.6	+9.4
Quincy		$ 219	11,064	$ 4,946		$ 54	$ 77
Percentage change from	Sept., 1959	+6.8	−17.8	−2.6	+16	+12.4	+8.4
	Oct., 1958	−61.3	+14.5	+0.0	−9	+1.7	+3.2
Springfield		$ 983	39,467[c]	$14,114		$ 140	$ 253
Percentage change from	Sept., 1959	−57.2	−10.4	+11.3	+15[c]	−6.0	+4.5
	Oct., 1958	+7.8	+8.0	+11.4	+5[c]	+3.3	−4.9
SOUTHERN ILLINOIS							
East St. Louis		$ 69	16,026	$ 8,619		$ 144	$ 79
Percentage change from	Sept., 1959	+50.0	−11.1	−3.0	n.a.	+1.9	+11.1
	Oct., 1958	−41.0	+24.3	+1.1		−13.9	+3.6
Alton		$ 203	25,266	$ 4,790		$ 46	$ 40
Percentage change from	Sept., 1959	+78.1	+1.1	−0.7	n.a.	−4.5	+17.3
	Oct., 1958	+227.4	+83.4	+3.0		+9.5	+9.3
Belleville		$ 151	10,688	$ 4,594		n.a.	$ 52
Percentage change from	Sept., 1959	−35.5	−24.3	+7.6	n.a.		+18.0
	Oct., 1958	−40.8	+17.4	+1.7			+6.9

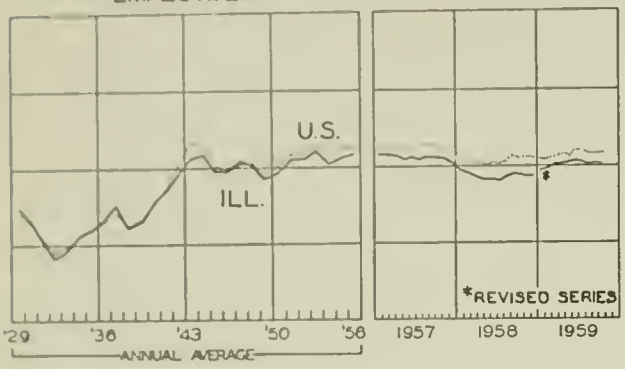
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for September, 1959. Comparisons relate to August, 1959, and September, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending October 16, 1959, and October 17, 1958.

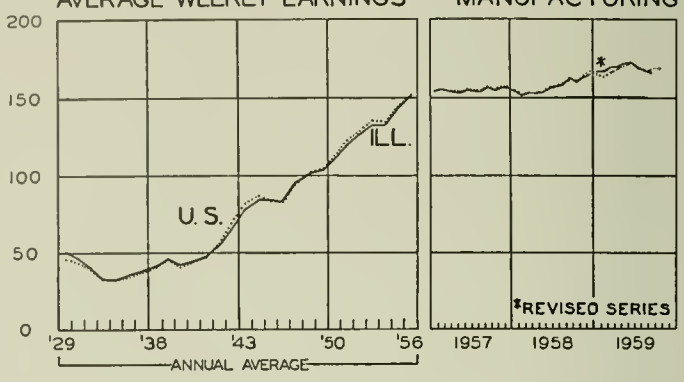
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

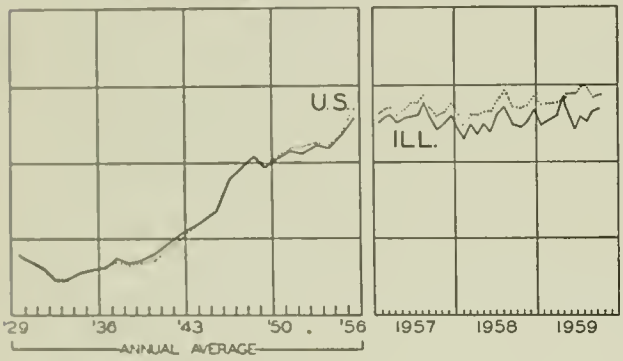
EMPLOYMENT MANUFACTURING



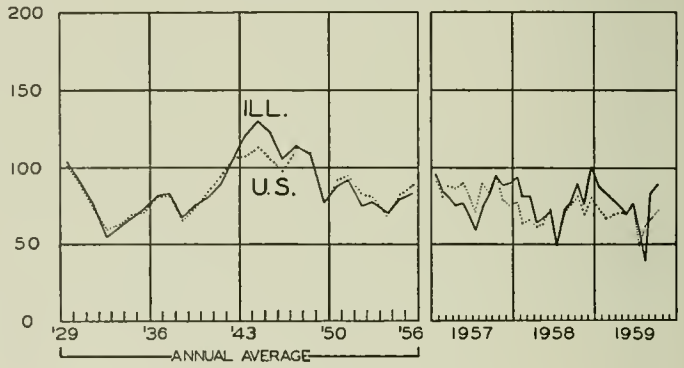
AVERAGE WEEKLY EARNINGS — MANUFACTURING



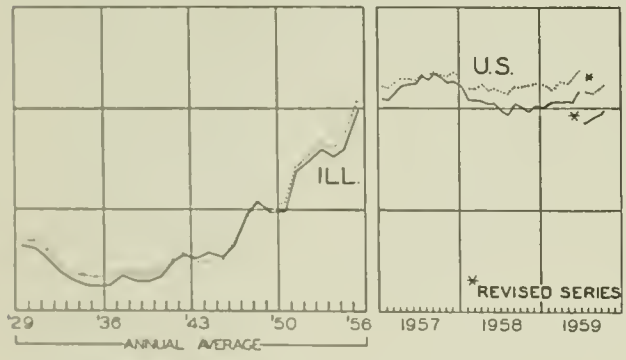
DEPARTMENT STORE SALES



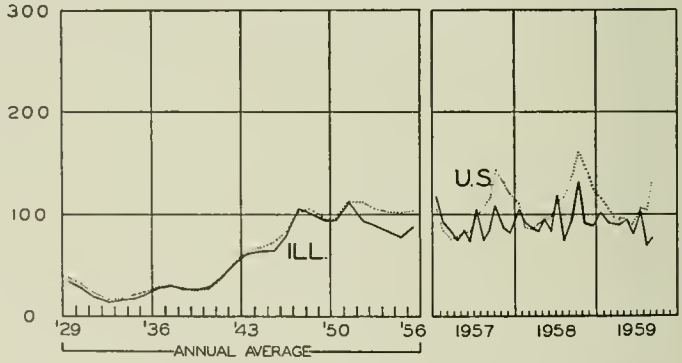
COAL PRODUCTION



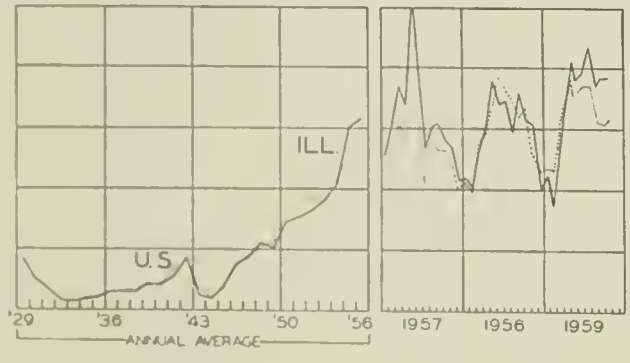
BUSINESS LOANS



CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION